



Underinsurance

The declared value must be adequate to reflect the cost of reinstatement as new including provisions for professional fees and demolition/debris removal – and in the case of buildings, must include adequate provisions for external walls, car parks, swimming pools, patios and the like.

If the declared value is inadequate to reflect the total at risk, any claim payment will be reduced in proportion. Periodic professional reinstatement valuations for buildings are strongly recommended.

As an example of buildings underinsurance, if your property is insured with a declared value of £500,000 and a full or partial loss occurs, a loss adjuster will ordinarily be appointed to determine the value at risk. If it is determined that the building should be insured for £1,000,000 this would mean the property would be underinsured, and as such any claim payment made will be reduced proportionately in line with the percentage of underinsurance:

Claim amount £200,000
Percentage of underinsurance 50%
Claim payment before deduction of excess £100,000

The AXA insurance policy includes a clause which waives their right to reduce a claim payment in proportion with any underinsurance, providing the total reinstatement as new value at the time of the insured damage is no more than 120% of the declared value.

The AXA insurance policy also includes a clause which waives their right to reduce claim payment in proportion with any underinsurance, providing you are able to provide documentary evidence of a reinstatement as new valuation undertaken by a Fellow or Member of the Royal Institute of Chartered Surveyors (RICS) no more than 3 years before the damage occurred and the declared value has been based upon that valuation (including provision for VAT if applicable) with the declared value having been increased annually thereafter in accordance with the RICS rebuilding cost index.

The sum insured referred to in the insurer's documentation is 150% of the declared value. This is because the sum insured includes a 50% inflation provision (this is to allow for any increases to rebuild costs during the period of insurance and in the time that it takes to fully rebuild the property). It is important to note that the declared value is the figure which must be adequate to reflect the cost of reinstatement as new at the start of the period of insurance (to avoid the potential proportionate reduction in claim payment).