



Explanation of terms and conditions

Underinsurance and 'Average'

Making claims clear





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At AXA, we want to make dealing with us simple and trouble free, so you can get back on your feet as soon as possible after a loss.

We know the last thing you need when you make a claim is to find any surprises in your policy conditions or get tied up in legal language.

We've put this guide together to help you avoid the risk of underinsurance and to explain the 'Average' clause which may be included in your policy wording.



Underinsurance and 'Average'



Deciding to take out insurance is only the first step – insuring your valuables and assets for the correct value is equally important.

Failure to consider this properly, and insuring for too low a value, can have serious consequences when it comes to settling any claim.

To help avoid this, we've listed some of the common pitfalls arising from being under-insured.

One common pitfall is that many businesses and individuals are still mistakenly using the purchase price, or their perception of the current market value, as the basis of a sum insured. The sum insured should instead be based on the rebuilding or replacement cost.



The building sum insured isn't just for "the building" – it should include everything



Any building sum insured should include internal fixtures and fittings, boundary walls, outbuildings, car parks etc. Look at what's included in the definition of "Buildings" in the policy and make sure you include all the aspects it covers.

If you have something covered by the definition, which you think could be damaged, and most things can be, make sure you have included it in the overall insured value.

Don't forget to include professional fees and demolition costs in case the worst happens.

We would recommend using the services of a professional chartered surveyor to provide a periodic assessment of the rebuilding costs especially in times of high inflation.



“Contents” means the entire contents, not just the big things

All contents must be included in the contents sum, ranging from the largest piece of equipment down to the smallest spanner or the stationery in the cupboard.





How to ensure you have everything covered



Your broker, or usual AXA contact, will be able to assist you in establishing what should and shouldn't be included. Also consider other factors, such as whether a building is 'listed', the quality of any finishes, commissioning costs of new machines or computer systems, the availability of new equipment.

Review policy limits

Make yourself aware of any policy limits that may be relevant to your business. These can normally be increased by paying an additional premium.



The potential consequences of underinsurance?



In common with most insurers, your AXA policy may well contain an “Average” clause.

Insurers set the premium on what they perceive the risk to be, which is based on the information you and your broker provide. If you have not insured for the full value of your property, then insurers have not been collecting enough premium to cover the real value at risk.

The ‘Average’ clause is the mechanism that insurers use to reflect this position at the time of any claim. In simple terms, the amount you receive once the figures are agreed is reduced in proportion to the degree you are under-insured.

If the property is a total loss, then the most you can receive is the sum insured.

It’s easy to see how you can suddenly find yourself many thousands of pounds out of pocket. This can have a devastating impact on any business, but unfortunately is something we see too often.

If you have any doubts about how to calculate the value of your assets, or you are concerned that you may be under-insured, speak to your broker or usual AXA contact.



Examples

Examples of underinsurance

You may pay £50,000 for an industrial unit, but its rebuilding cost may be £150,000. It should be insured for £150,000.

You may purchase a second-hand piece of machinery at auction for £3,000, but its cost new may be £25,000. It should be insured for £25,000.

Example of 'Average' being applied

A commercial property is insured for £100,000 (based on market value), but the actual cost to rebuild the property is £200,000.

As the premium was based on the understanding that the sum insured for rebuilding was £100,000, the claim settlement would be reduced by 50%.

The repairs cost £10,000, but as the customer was under-insured by 50%, they would receive only £5,000 in settlement.



Get in touch

If you have any questions about this document, please get in touch with your usual AXA contact or your insurance broker.





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