

# Why “underinsurance” can be as dangerous as a natural disaster

Someone recently said, “What a decade 2021 is turning out to be!” Considering everything that 2021 has thrown at us so far – the COVID-19 pandemic, volcanic ash debris from St. Vincent’s La Soufrière volcano and severe weather conditions – it sure seems like 2021 has been around much longer than just a few months. But, as dangerous as natural disasters and other disruptive events can be, there is another dangerous element that can threaten the livelihood of property owners. That dangerous element is “underinsurance”!



Yet, according to World Bank policy researcher J.D. Pollner *“in the Caribbean a large number of property owners either under insure or do not insure their properties at all.”*<sup>1</sup>

## WHY IS UNDERINSURANCE SUCH A SERIOUS ISSUE?

Underinsurance occurs when your building’s full reinstatement cost (value) isn’t reflected in your insurance policy. In layman’s terms, this means that while your residential or commercial property does have some insurance coverage, that coverage is less than the full market value of the property. In essence, should your property be damaged or destroyed, your insurance coverage won’t give you the ‘total/true value’ to allow you to completely repair, rebuild or replace

what was lost. If you don’t have the additional resources to make up the difference between the market value of your property and the value of your insurance policy, you may never be able to recover from the damage to your property and its contents!

Unfortunately, many property owners often don’t understand they are underinsured and the implications, until it’s too late – usually when they make a claim and realise that their coverage isn’t enough to fully compensate for their losses. In many cases, they simply forgot to upgrade their insurance coverage, relied on outdated information, or followed advice from unqualified persons. We recommend that you obtain a professional valuation on your property every 2-3 years. The valuation should be done by a trained, experienced valuer who is familiar with appraising the type of property that you own.

As a property owner, it is your responsibility to make sure that your policy carries the ‘correct’ insured values of the building and its contents, to ensure that you are fully covered. If either the value of your property or its contents increases, so should the insured values on your policy.

## UNDERSTANDING “CONDITION OF AVERAGE”

Most property insurance policies contain a condition referred to as the Average Clause which explains how underinsurance works. Where average applies, if your property is damaged by an insured peril but is

underinsured, your claim will be settled in the same proportion the sum insured bears to the property’s actual value. Let’s say, for instance, your property has a true value of \$500,000, but you only insured it for \$250,000—then you are underinsured by 50%. Therefore, you’re considered your own insurer for the difference between the sum insured and the property’s true value. If your property is damaged by the impact of high winds and floods and it costs \$60,000 to repair the damage, your claim will be settled for \$30,000 which is 50% of the claim, less the applicable deductible.

**Contact us today and one of our friendly representatives will be happy to provide you with advice and help you secure your home or business adequately.**



<sup>1</sup> Pollner, J. D. (2001). Managing catastrophic disaster risks using alternative risk financing and pooled insurance structures. World Bank.