DON'T GET CAUGHT OUT
How underinsurance could cost landlords thousands

Hayley McSherry, director at NRLA recognised supplier Aspray, on the thorny issue of underinsurance – and how to make sure you are covered

Although we have moved into 2025, the problems of 2024 seem to have followed along behind us. And one of the worst is the cost of living crisis. Continuing rising costs could have an unexpected effect on your insurance policy. Should your new year really go awry and one of your properties is damaged, the last thing you will need is to find you are underinsured, with an estimated 76 per cent of all buildings in the UK falling into this category.

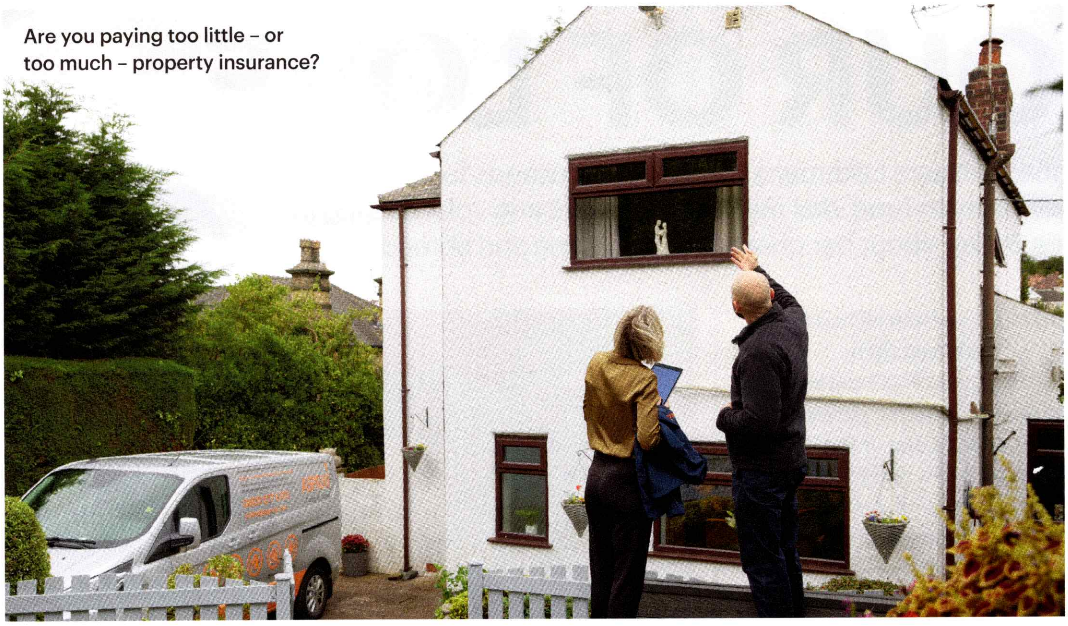
WHAT DOES IT MEAN TO BE UNDERINSURED?

For those not in the know, it is easy to fall into the trap of underinsurance. To explain underinsurance, we must first explain the difference between the market value and the rebuild value of a property. All too often, when asked the cost of rebuilding a property, a policyholder will enter the price they paid for the property. But this is the market value. The rebuild value considers a different set of parameters.

Hayley McSherry, director at Aspray

To calculate the rebuild value of a property, you would need to incorporate the cost of demolishing and removing any existing property and then rebuilding from the foundations up. This includes various elements, such as the cost of materials and labour and professional fees. And as the cost of materials and labour rises, so does your rebuild value.

If your rebuild value is incorrect – more importantly, if it is too low, you will be deemed underinsured if



Are you paying too little – or too much – property insurance?

you ever need to make a claim for damage to your property. Alternatively, if your rebuild value is too high, you may be paying more than you need for your policy.

CALCULATING YOUR REBUILD VALUE

The only accurate way to calculate the rebuild value of your property is to consult a chartered surveyor. To give you a correct figure they will measure your property, examine the structure of both internal and external components, apply the correct rates using the Building Cost Information Service (BCIS) guide and ensure that all professional fees, for example, planning and structural fees, are included within the calculation.

You can find a chartered surveyor local to you by visiting the RICS website and using the 'Find a Member' option.

THE IMPACT ON PROPERTY CLAIMS

If you find yourself underinsured while making a claim, it is likely that the insurer will apply a principle of average to your settlement figure. And if this happens, you could find yourself footing large bills to fix your property.

Here comes the maths...

The principle of average is based on the percentage by which you are underinsured. For example, you have indicated on your policy that your rebuild value is £100,000. Unfortunately, you have had a burst pipe which has caused £50,000 worth of damage to your property.

You speak with your insurer, and they come to inspect the damage. While visiting the property, they find that the rebuild value on your policy is incorrect and should in fact be £200,000. As the figure you provided is half of the actual rebuild value, your insurer deems you 50 per cent underinsured.

But what does this mean for your claim? It is at this point that your insurer will apply the principle of average. As you are 50 per cent underinsured, they will only pay 50 per cent of the settlement value, less your excess.

This means they will only pay £25,000 (minus your excess) for your £50,000 claim, leaving you to foot the remaining bill to fix your property.

A NEW YEAR, AN UNEXPECTED INSURANCE CHALLENGE – A LANDLORD'S STORY

As one landlord welcomed 2024, they had no idea the new year would bring an unwelcome surprise in the form of an insurance claim nightmare. A leak caused by three frozen pipes led to significant water damage in the kitchen of a tenanted rental property.

Faced with an unexpected crisis and needing to be away, the landlord appointed Aspray to handle the claim. However, when Aspray met with the insurer's loss adjuster at the property, an even bigger issue came to light: the property was underinsured.

When the landlord had initially purchased the insurance policy, the rebuild value was set at £122,000. But a thorough assessment revealed the actual rebuild cost was £179,000 – leaving the property underinsured by a staggering 32 per cent.

This underinsurance had significant financial consequences. The cost of reinstating the kitchen to its pre-loss condition was calculated at £4,500 + VAT. However, due to the underinsurance, the insurer agreed to pay only £3,067 + VAT, a figure further reduced by the £750 policy excess. In the end, the landlord had to contribute more than £2,000 to repair the property – an outcome we, unfortunately, see all too often.

Luckily, this was a relatively small-scale claim. However, the financial impact could have been far more severe had the damage resulted from a major fire or flood.

REDUCING THE RISK OF UNDERINSURANCE

Thankfully, there are a few things you can do to reduce the risk of falling into the underinsurance trap:

- **Review your policy regularly.** As we've seen in everyday life recently, prices can change quickly. It is important you review your policy at least annually to ensure that your coverage is sufficient should you need to make a claim. This is also important if you make any major alterations to the property, as this will impact the rebuild value.
- **Seek the advice of professionals.** From a chartered surveyor to an insurance broker, professionals are best placed to give you accurate advice to ensure that you are adequately insured, and the policy cover meets your needs.
- **Get to know your policy.** Understand the conditions and cover provided within your policy. The more you know, the less likely you are to get a nasty surprise should you need to make a claim.

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