

Understanding the **Risk of Underinsurance**

What is Underinsurance?

Underinsurance occurs when a property is insured for less than its true replacement value, leaving property owners vulnerable to financial pressure, risk in the event of damage or loss.

Why Underinsurance Occurs



Inflation:

Rising construction costs and labour costs/materials aren't reflected in the insurance coverage.



Outdated Valuations:

Lack of regular assessments leads to coverage gaps.



Not including additional costs:

Failing to include additional costs such as professional fees, demolition and the removal of debris.

Important Facts

Recognising Underinsurance Risks

- ❗ **Financial Risk:** Underinsurance can leave policyholders covering shortfalls.
- ❗ **Disputes:** Inadequate coverage may lead to disputes and delays in the claims process.
- ❗ **Renovations:** Ensure your policy is updated after making enhancements.
- ❗ **Legal Obligation:** Cover the full reinstatement or replacement value.

Protecting Against Underinsurance

- ✅ **Regular Valuations:** Conduct professional valuations every 2-3 years at a minimum.
- ✅ **Annual Policy Reviews:** Adjust your coverage to ensure your sum insured matches cost increases.
- ✅ **Inflation Protection:** Opt for policies with automatic inflation adjustments.
- ✅ **Consult Experts:** Seek advice from insurance professionals to ensure complete coverage.



Client Checklist

- Conduct a professional property valuation.
- Review and adjust coverage annually.
- Include recent renovations or additions in your policy.
- Include costs such as professional fees, demolition and the removal of debris.
- Consult with your insurance broker or Flex Insurance.