YOUR PROPERTY COULD ONLY BE HALF PROTECTED

UNDERSTANDING THE AVERAGE CLAUSE: THE POLICY CONDITION THAT CAN REDUCE YOUR CLAIM SETTLEMENT.

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WHEN YOU INSURE A BUILDING, YOU DECIDE THE SUM INSURED.

When you insure a commercial or residential building, you are responsible for deciding the "Sum Insured." This figure should represent the total cost to rebuild your property from scratch—including demolition, site clearance, and professional fees.

However, if that figure is inaccurate, a little-known rule called the "Average Clause" could come into play. It is the most common reason why property owners are left with significant financial shortfalls after a claim. This guide breaks down how it works and how to avoid it.

KEY TAKEAWAY

The Average Clause ensures you only get what you are paying for. If you understate your rebuild value, your insurer will proportionally reduce your claim payout.

SCENARIO ONE: THE TOTAL LOSS

YOU'VE INSURED YOUR BUILDING FOR £500,000, BUT IT'S ACTUAL REBUILD COST IS £1 MILLION...

THE SITUATION

You set your insurance limit at £500,000. Perhaps this was based on the price you paid for the property or an old valuation. However, the current cost to actually rebuild the structure is £1,000,000.

THE REALITY

In this scenario, you are 50% underinsured. You are only paying half the premium you should be for the actual risk the insurer is taking.

THE RISK

If the building is totally destroyed, you might expect to receive the full £500,000 you insured it for. However, due to the property being underinsured by 50%, the average clause may apply, meaning you'd receive only £250,000 from your claim. Leaving you to cover the remainder. It's not just total loss claims that are affected either, as shown in the next scenario..

SCENARIO TWO: THE PARTIAL CLAIM TRAP

A FIRE CAUSES £10,000 WORTH OF DAMAGE...

THE SITUATION

A small fire occurs, and the repair bill is £10,000. Since you have £500,000 of cover, you assume the full £10,000 will be paid out.

THE REALITY

If the Average Clause were to apply, the insurer would look at the percentage of underinsurance across the whole property. Since you only insured 50% of the true rebuild value, they will only pay 50% of any claim you make.

THE RISK

Instead of £10,000, you receive just £5,000. You are left to find the remaining £5,000 yourself for a relatively small repair. On a larger claim of £100,000, you would be facing a £50,000 shortfall.

HOW TO ELIMINATE THE RISK OF THE AVERAGE CLAUSE

THE ONLY WAY TO STOP THE AVERAGE CLAUSE FROM BEING APPLIED IS TO ENSURE YOUR SUM INSURED IS ACCURATE.

DON'T GUESS THE VALUE

Market value and rebuild cost are not the same. Never use a mortgage valuation or purchase price to set your insurance limits.

USE A PROPERTY PROFESSIONAL

The only reliable way to determine the correct amount is to use a RICS-regulated professional who understands modern construction costs, material prices, and professional fees.

PROTECT YOUR INVESTMENT LONG-TERM

Our Desktop Assessment with 3 Full Years Protection includes two annual refresh calculations following your initial assessment. Rebuild costs are rising every year. Without updates, your sum insured can quickly become inaccurate and reduces the risk of being inaccurately insured. You don't need to do anything - we handle the updates for you. Plus, enjoy priority handling and a 20% discount on property updates if you make changes before your annual refresh.

ENSURE FULL COVERAGE CONFIDENCE.

Don't wait until you have to make a claim to find out you're underinsured. Get an accurate assessment and ensure the Average Clause never affects your business or home.

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PROTECTED

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