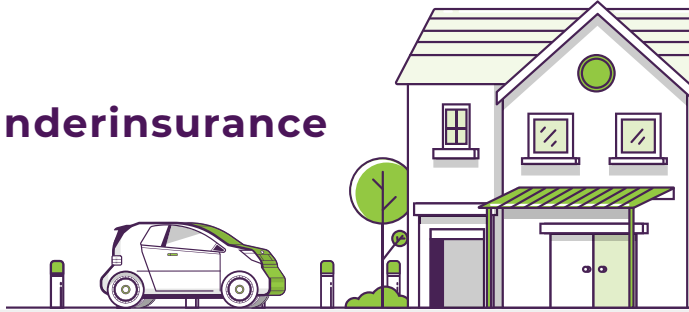




# Underinsurance



## 1. Introduction

---

As your insurer, nothing is more important to us than being there when you need us most, especially at the time of a claim.

To ensure that we can fulfil our commitment to you we need your help to set your sums insured and keeping them up to date and sufficient to appropriately cover you in the event of a claim. It is crucial to make informed decisions about your insurance coverage amounts and to seek professional advice if necessary.

## 2. What is underinsurance?

Underinsurance occurs when you insure your home for less than it is actually worth. This can happen when:

- You specify a **buildings sums insured** that is less than the total rebuild cost of your home
- You specify a **contents sums insured** that is less than the total amount it would cost to replace all the items in your home

Due to **inflation**, the rebuild and the total cost of your contents is changing all the time. It is important to review the value of your contents and the rebuild cost of your home regularly to ensure that you are considering the effects of inflation.

### 3. What are the consequences of underinsurance?

If you are underinsured it can significantly affect both the premium that you are paying, as well as the effectiveness of the cover you have purchased. Underinsurance can lead to:

- A **reduced/partial settlement** at claims stage due to the **principle of average**
- **Insufficient financial compensation** in the event of a **total loss**

#### 3.1 What is the principle of average?

The principle of average applies when you are underinsured. Your premium is based on the sums insured you have selected. If your sums insured is lower than the true value, your premium wouldn't be reflective of the risk. This could result in your claim payment being reduced in proportion to the degree of underinsurance.

For example, if the total rebuild cost of your home is €1 million, and you have specified a buildings sums insured of €800 000, you are underinsured. Any claim you have will be reduced to 80% (800 000 / 1 000 000).

#### 3.2 What about a total loss?

Your Contents and Buildings sums insured represent the maximum amounts we will pay out for your Contents and Buildings in the event of a single insured incident.

In the event of an incident leading to a claim that exceeds your sums insured, your payout will be limited to the sums insured which might not be enough to cover you for your full loss.

#### 3.3 Examples of the consequences of being underinsured

##### i. Total Loss

Saoirse has specified a buildings sums insured of €800 000. Unfortunately, Saoirse's home is burnt down due to an electrical fire. Saoirse then only realises the true rebuild cost of her home is actually €1 million, resulting in her home being underinsured. At claims stage her insurer will pay out only €800 000. This would not be enough to rebuild her house to the same standard.

##### ii. Partial Loss

Aoife was away at the shops when her washing machine malfunctioned resulting in water damage to the home worth €100 000. She had specified a sums insured of €500 000, but the true rebuild cost of her home was €1 000 000. Aoife would only receive €50 000 for the water damage to her home based on the principle of average, as her claim payment would be reduced proportionately to the level of underinsurance. (50% = 500 000 / 1 000 000).

#### **4. How to protect yourself against underinsurance**

In order to protect yourself against underinsurance, it is important you carefully consider the sums insured you are selecting at both quote and renewal stage. You may also update your sums insured at any time. It is vitally important to ensure your sums insured adequately reflect the true rebuild cost of your buildings and the cost of replacing all of your contents at all times. Some things to protect yourself from underinsurance include:

- Using the SCSi rebuild cost calculator to assist in determining the correct rebuild cost of your home. <https://scsi.ie/consumer/build/calculator/>
- You are required to maintain Your Sum Insureds at all times, reflecting the accurate value of Your Buildings, Outbuildings, and Contents.
- The Buildings Sum insured should reflect the total cost of rebuilding Your Home and encompass the costs associated with debris removal after a loss, professional fees, and any additional expenses necessary to meet the current Building regulations.
- Updating your sums insured when there are changes to your building or contents such as renovations or purchasing additional contents items
- We regularly monitor various rebuilding and household goods indices and may annually update Your Building and Contents Sum Insureds using the index that provides the best protection against inflationary effects – We will inform You of Your updated Sum Insured at least 20 days prior to renewal. However, it's important to note that these updates don't consider the significant variations in customers' homes.

**Kind Regards,**

**The OUTsurance Team**