

## How to Avoid Under (or Over) Insurance

One of the biggest challenges faced by trustees is to ensure that they are insuring the trust asset for its correct value. Too often we see under-valued insurance on properties, and in some cases over insured properties (i.e., insuring the buildings on the purchase price or the current market value, rather than the re-build, or reinstatement value).

With the latter, the trustees will have paid too much premium for the risk to be insured but would not experience any problems should a claim arise. With the former however, the trustees could face a reduction in any claim payment, as a result of the application of the Average Clause within the policy document, and be left out of pocket.

### What is the “Average Clause”?

The Average Clause is a condition written into most property insurance contracts which simply means insurers are entitled to reduce claim payments if the risk has not been insured to its full value. For example, if the full reinstatement value of a property was £500,000 but it was only insured for £300,000 (ie, 60% of its true value) and a water damage flooding incident produces a claim for £30,000, then insurers would only pay out £18,000 (60% of the claim).

Insurers justify the inclusion of this clause on the basis that the Insured has only been paying them 60% of the premium to insure the risk of loss or damage.

Many believe the Average Clause would only apply to a “total loss”, and feel that they are safe with larger valued properties in that they do not envisage the entire property to ever be demolished. This is incorrect and the Average Clause applies not only to total losses, but also to “partial losses” (as per the example above).

### Why is it so important?

A basic principle of insurance is to place the Insured back into the same financial position as they enjoyed immediately prior to a loss. This is why insuring for the full reinstatement value is essential.

### What is the solution?

Ideally you should arrange a formal reinstatement valuation survey with a chartered surveyor (who is a member of the Royal Institution of Chartered Surveyors), however many trustees find that the administration and cost of such a service make this prohibitive. This is where Vantage can provide a solution.

We can provide access to a facility offering cost effective “desk-top” surveys using the latest digital mapping software and an extensive database of rebuilding costs for every type of property construction. The charges range from £110 (+ VAT) for residential valuations up to £2,500,000 sum insured, and £150 (+VAT) for commercial valuations up to £1,500,000.

Although not a complete replacement for an onsite formal visit valuation, this service can assist in protecting the trustees’ position should under (or over) insurance exist and potential claims for breach of fiduciary duty and/or allegations of negligence by the trustees.

### Who provides the surveys?

The valuations are undertaken by Internet Surveys Ltd, a company that provides a remote valuation service to private clients, insurance companies, insurance brokers and other organisations involved in the valuing of properties. The company is at the forefront in the development of remote valuation services to insurance companies and has developed the appraisal templates for the top four high net worth insurers.

### What properties can be valued?

The re-build values of both residential and commercial properties can be assessed through this facility, with a set fee table for valuations up to £5,000,000. For properties valued in excess of this referral to the survey company is required. It can accommodate UK based properties as well as mainland Europe.

<b>Vantage Fee Schedule</b> (For properties up to £5,000,000)	
Residential valuation up to £2.5 million sum insured.	£110
Residential valuation over £2.5 million sum insured.	£250
Commercial valuation up to £1.5 million sum insured.	£150
Commercial valuation over £1.5 million sum insured.	0.01% of sum insured
Overseas valuation (mainland Europe) up to £2.5 million.	£250
Residential and Commercial valuations in excess of £5,000,000.	Refer to Vantage
Portfolio valuation.	Refer to Vantage

The above are subject to VAT at the prevailing rate if the property is located outside the Channel Islands.

## About Vantage

Vantage are an experienced insurance advisor to the Trust sector and specialise in arranging buildings insurance, both residential and commercial, for trust companies.

We can assist with advice and guidance to ensure that your position as trustees is fully protected.

Please do not hesitate to make contact if you have any property insurance enquiries for your client business.

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