

The Importance of Keeping Your Values Up to Date and How to Avoid Under Insurance

Over my 28 years working in the Private Client industry working for specialist insurers, and consulting in the High Net Worth (HNW) space, I have seen numerous cases of inadequate cover. Incredibly up to 75-80% of HNW homes are estimated to be underinsured (Datamonitor report 2015).

I recall going with a broker to see one of their clients in London to review the value of their contents and valuables. The client's wife casually enquired what the general contents were covered for and I'll never forget her response when she was informed of the amount ... 'darling, that wouldn't even cover my handbags' - which incidentally were 'serviced' annually in New York. The sums insured were subsequently reviewed and there was a more than threefold increase in cover.

In another example, following an unfortunate fire at a substantial home, the total contents cover was almost exhausted in one room where the curtains alone were worth £70,000. They were completely damaged by smoke, rather than the fire itself. Whilst the insurer was sympathetic to the client's position, they had not received adequate premium as the sums insured were hugely understated, and the insurer asked the client to pay backdated premium for the correct sums insured. The broker involved was grateful for the insurers approach, although had not spotted the degree of underinsurance.

Why are HNW homes more at risk from underinsurance?

Value of certain items increase over the years such as jewellery, art and even wine.

Items made of precious metals and valuable stones are highly influenced by fluctuating markets, which can lead to significant increases.

Bill Baker of Porticus Insurance Consultants Ltd, a specialist HNW broker based in London commented on his experience: 'We recommend that our clients' jewellery is valued every 2-3 years to avoid under-insurance. We know many are not properly covered and when they do have a new valuation, we see very significant uplifts in values. We also regularly see under-insurance of contents in the high net worth sector. The replacement costs of contents in a typical detached family home can easily be £250,000 or significantly more depending on the quantity and quality of clothes, shoes, handbags, carpets, curtains, sports equipment and furniture.'

So how do insurers deal with underinsurance at the time of a claim?

HNW insurers stipulate in their policy terms that items of contents and valuables need to be insured for their full value, and their adequacy will be reviewed at the time of a claim. If the amount is not adequate, they will require as a minimum that the sums insured be revised, and the correct premium collected. At worst they can potentially void the policy if there is deliberate misrepresentation, and or non-disclosure.

These insurers often individually list on the policy items over a certain value for jewellery, art and precious metals, and then cover them on an 'agreed value' basis. At a time of loss, the insurer will pay out the amount on the schedule, although not a higher amount if the item costs more to replace, which can be the case if the item has not been recently valued.

Most non-HNW insurers will apply average, where the amount paid out is proportional to the amount underinsured, so if the underinsurance amount is 50% for example, then only 50% of the claimed amount will be paid.

How to avoid underinsurance:

- Have a professional assessment by a specialist valuer such as Doerr Dallas Valuations, to keep the values of your contents and precious items current. They offer an initial walk through valuation for £500 plus VAT, which will highlight any underinsurance on contents, as well as comment on the adequacy of jewellery cover. If there is significant underinsurance a full valuation will be recommended
- Review your sums insured on a regular basis, considering movement in prices, for example the recent increase in gold prices
- Undertake a full review of your home contents, including carpets and curtains, clothing and shoes, sports equipment, and items kept in cupboards, garages and garden rooms
- Speak to a specialist HNW broker, who will offer you independent professional advice about how to protect your valuable assets, and recommend a suitable insurance policy for your needs

