



INSURANCE UNDERWRITING MANAGERS

**ARE YOU  
UNDER-INSURED?**

# Introduction

There is a growing responsibility to have insurance to protect you when things go wrong, but what happens when your insurance does not cover your personal belongings or business to the extent that you thought it would when something does in fact go wrong? One of the least documented issues that many individuals or business owners face is under-insurance.

You could be unaware that the insured values of your assets may have dropped well below current replacement or repair costs due to the current economic climate. Our aim is to provide you with the knowledge you need to ensure you do not fall victim to under-insurance. Throughout this article we will present you with case studies and working examples of how under-insurance affects you as an individual or as a business owner. You will also learn the important questions to ask your broker safeguarding your assets in the event of a claim. With the correct knowledge you will have the control over the cover that your business and personal belongings get.

**“Under-insurance occurs when your insured value is less than the replacement value of the item”**

Under-insurance is a harsh reality, one that you may be forced to deal with when you are already involved in a claim that has left you with a payout less than what your items had been insured for. The knowledge gained in this document will ensure that you have the peace of mind that you are adequately insured.

Your broker plays a crucial role in assisting you as an individual or your business to assess your insurance requirements and insured values. IUM recommends that your broker reviews your policy annually to specify any new assets that have become a part of your lifestyle as well as updating the current replacement values of these belongings.

# Glossary

**We have formulated a glossary of terms for your reference throughout this article:**

**Accident** - a sudden, unforeseen and unintentional incident that happens - usually resulting in loss, damage or injury.

**Assessor / Adjustor / Loss adjuster** - independent claims specialists who investigate complex or contentious claims on behalf of insurance companies. Their first role is to establish the cause of the loss and whether it is covered by the insurance policy. They are appointed by the insurer.

**Authorised Representative** - an authorised representative can be given authorisation to give financial advice or perform intermediary services.

**Broker / insurance broker** - an insurance agent who generally acts as an intermediary between insurers and the insured.

**Claim** - a formal request to an insurance company asking for a payment based on the loss suffered in terms of the insurance policy cover provided.

**Cover** - the amount of risk or liability that is covered for an individual by an insurance provider.

**Deterioration of stock** - Loss of or damage to the insured property specified in the schedule caused by deterioration due to unforeseen physical loss of or damage to the machinery specified in the machinery breakdown section and indemnifiable under the machinery breakdown section in force

**Excess** - the first amount payable by the insured in the event of a loss, this is the uninsured portion of your loss. This can also be referred to as a deductible.

**FAIS** - the Financial Advisory and Intermediary Services (FAIS) is a division of the Financial Services Board and is responsible for the regulation of Financial Service Providers ("FSP's"). The Division consists of Registration, Supervision, Compliance and Enforcement.

**FSP** - the entity that has been granted an authorisation to act as a financial service provider.

**Household contents** - personal belongings and household possessions. This is usually inclusive of furniture, electrical appliances, furnishing, some valuables and cash up to a certain limit.

**Market value** - the amount for which something can be sold in a given market.

**Policy schedule** - an outline of the cover provided under the policy, it will show details of the policyholder, the cover given and the relevant limits, sums insured and excess.

**Policy wording** - Is a formal contract-document issued by an insurance company to an insured. It (1) puts an indemnity cover into effect, (2) serves as a legal evidence of the insurance agreement, (3) sets out the exact terms on which the indemnity cover has been provided, and (4) states associated information such as the (a) specific risks and perils covered, (b) duration of cover, (c) amount of premium, (d) mode of premium payment, and (e) deductibles, if any.

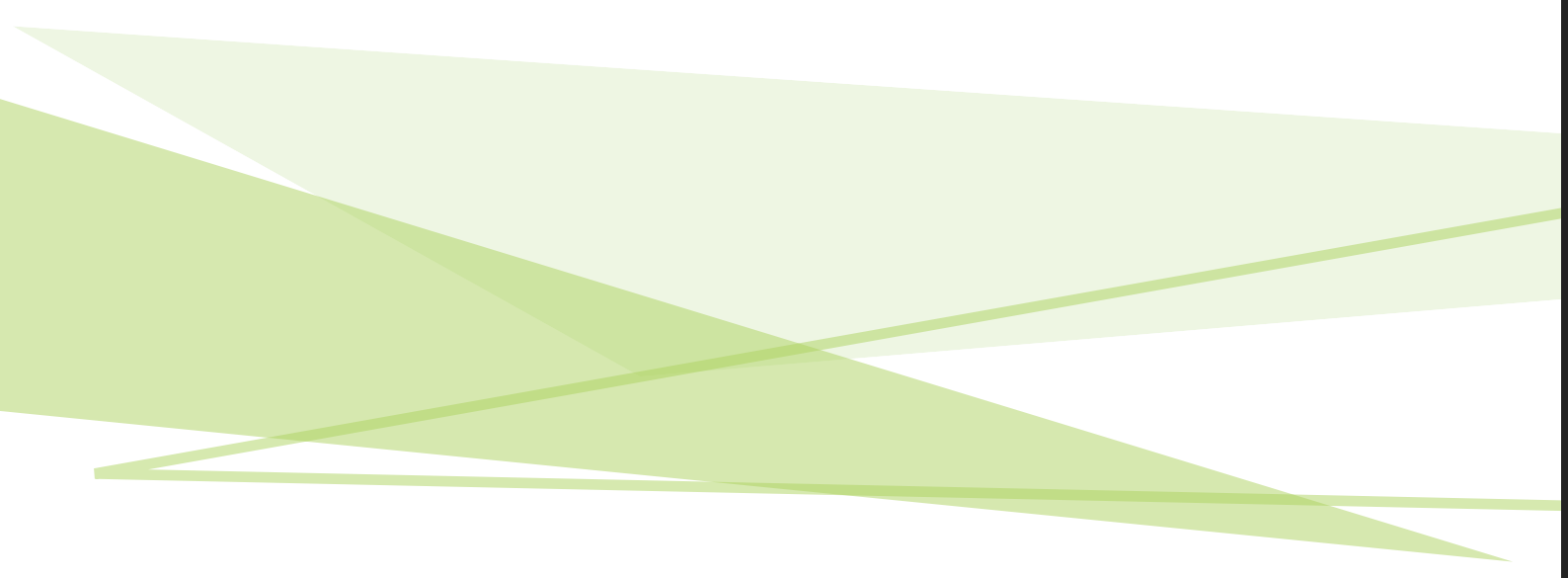
**Principal of average** - the term used when calculating a claim payout against a claim where the policy cover is less than the sum insured.

**Premium** - the amount of money that an individual or business must pay for an insurance policy, usually on a monthly basis.

**Retail value** - is the price of an asset that it is currently being sold for, taking in into consideration the age and condition of the item.

**Under-insurance** - inadequate insurance cover by the holder of a policy.

**Underwriting manager** - a financial professional that evaluates the risks of insuring an individual or asset and uses that information to set a premium for an insurance policy. An underwriting manager represents an Insurer or performs these activities on behalf of an Insurer.



# What does it mean being under-insured?

Under-insurance has serious implications for the replacement of your valuables, from personal items to plant and machinery in a commercial business. In order to best describe what being under-insured means to an individual or a business owner we aim to explain how under-insurance can happen to you. Insurance has become a staple to the average person's lifestyle, but with insurance comes the responsibility to ensure that your policy has the best cover that is tailor-made to suit your needs, or the needs of your business.

Through this we aim to make you aware of the steps you can take to have your broker adequately cover your values and provide you with a policy that has been formulated as per your own specifications. As an example, certain policies and/or sections contain an average clause, that is, if you insure a piece of equipment for R100 000, with a replacement value of R200 000, the item is 50% under-insured. Should a loss of R50 000 be suffered by you the insurance company may pay only 50% of the claim, due to the principle of average, R25 000. The balance is then left for you to pay.

There is no better saying for this issue that many people are facing than 'if you don't ask, you don't get'. We want you as an individual to ensure that your assets are protected. You can get the insurance cover you need by asking your broker the right questions to prevent a potential financial loss. When you have the correct knowledge you are able to ask the right questions, as well as an understanding of the cover you will receive on your policy. With the right insight about what cover your policy can offer, you are able to put across your needs

more successfully. If the amount needed to replace all your insured property with similar new property at the time of a loss or damage, is more than the insured amount, your insurer may not pay you the full amount of the loss or damage. You will be your own insurer for the difference between the insured amount and the amount needed to replace all the insured property. Therefore, you will be responsible for a relative share of the loss or damage. Let us assume your property is insured for R500 000, and the current replacement value of your property is R1,000,000. This means you are only insured for half of the replacement value. You must cover the other half. For example, if you suffer damage to the value of R100 000, your insurer might apply the principle of average\* and only pay half of this amount, which is R50 000.

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## This can be calculated as follows:

Insured for :	R 500 000
Replacement value :	R 1 000 000
Claim :	R 100 000

$$\frac{R\ 100\ 000}{1} \times \frac{R\ 500\ 000}{R\ 1\ 000\ 000}$$

= R50 000

Your insurance company will only pay out R 50 000 of your claim

\* This condition applies separately to each item in the policy schedule.

To that end, the following items are commonly under-insured:

### **Buildings**

Insured at market value instead of replacement value  
to rebuild the building

### **House Contents**

Cover is generally taken out on perceived value instead  
of the actual new replacement value

### **Machinery and plant**

Changes in asset values, import costs and volatile markets  
often get ignored

### **Business Interruption**

Continuity plans and insurance payout to cover this is essential.  
People often overlook vital cost factors such as:



### **ALTERNATIVE PREMISES**



### **CONNECTION OF SERVICES**



### **REMOVAL OF DEBRIS**



### **COUNCIL REQUIREMENTS**



### **TENDER PHASE**



### **LEAD TIMES ON REPLACEMENT EQUIPMENT**



### **TESTING AND COMMISSIONING**



### **RELOCATION BACK TO PREMISES**

You as an individual handling your personal insurance might see it as a hassle to compile an inventory of your personal goods or be unwilling to pay for a professional valuation. The problem with not getting a professional evaluation is that you may end up guessing the insurance value of your items. Insurance is then taken out on 'perceived' values instead of getting actual replacement values, thus causing you to be less than impressed when you receive a claim settlement that does not cover the current values of your items.

We have come to notice that insured individuals tend to be totally unaware of the issues within their policy until it comes time to submit a claim. The personal assets that aren't specified with their current replacement values in your policy could then, at a claims submission stage, rear their head when it is too late to make the necessary adjustments to ensure you receive a fair payout.

On the business side of things, owners tend to take their asset registers and apply depreciation to the values of plant and machinery and often base their insurance cover on these values. To prevent any potential financial loss if the equipment needs to be replaced, you should actually be applying current replacement values of your insured equipment.

## How could being under-insured affect you?

We leave our possessions in houses that have alarm systems, high walls and even electric fences to keep everything safe and to prevent any of those personal belongings being stolen. Your possessions such as television sets, lounge suites and electrical appliances have been purchased with hard-earned money and the last thing that anyone imagines happening to their personal possessions is a loss, and worst of all, your insurance policy not paying out fully in such an event.

It is always recommended that you regularly update your contents sum insured when you acquire new items. This is to protect you should the time come when a household item needs to be replaced, such as a high value fridge that you have purchased for your family, due to an lightning or flooding; you don't want to be left with having to settle for a lesser quality item simply due to the item not being insured for the correct value.

Your insurance premium could be of a reasonable amount due to your house having an excellent alarm response unit fitted. But the fact remains that you could still have an incident that leads to a claim that could result in you having to replace important household objects such as a fridge, washing machine, televisions or home theatre equipment. Could your family bear the brunt of having to pay out for those items if your insurance only contributes a small portion of the claim?

# Case Study

## Overview

Mr. A suffered water damage to his household contents due to his geyser bursting. He had contacted his broker to report the problem and he was assured that the problem would be solved when he had made a claim to have the geyser replaced, along with the damaged household contents.

## Key Problems

Mr. A had submitted his claim with quotes that he had sourced for his geyser and household contents that were damaged. He then set up an appointment with his broker to discuss the process he would have to follow to have his geyser and household contents replaced. When his broker had gone through the items that require replacement, including the geyser, it was discovered that Mr. A was under-insured for the amount that his items would cost to replace in the current economic climate. This meant that he would not be able to have his items replaced with similar items of the same value, but rather items of a lesser value, if at all. His claim payout would not cover all of his expenses.

He had initially opted to cover all of his items at retail value to have a lower monthly premium for his cover. Mr. A had not taken into account that the damaged household contents had the potential to be worth more with the unstable rand/dollar exchange rate. He was in turn unaware that his choice to sacrifice full cover for a lower premium would result in him not getting a full payout in the event of a claim.

Mr. A is faced with a major problem, his geyser was insured for the full value as it formed part of his building insurance, which means that he is able to be paid out for the full replacement value at the time of the loss. However, his household contents that were damaged as a result of his geyser bursting have not been covered at replacement value. This means that Mr. A's contents were insured on perceived values rather than current replacement costs. Mr. A had not considered the possibility that his fully covered burst geyser would damage items that were not able to be replaced at their full current replacement value. He was now faced with having to either settle for items at a lesser value or pay the balance himself in order to replace his original items. He has now realised that the proper specifications of the damaged household items were not specified in his policy and he had not taken the opportunity to voice his specific needs. He had not focused on having the policy tailor-made to prevent the financial loss of covering the damages himself.

## How this impacts the insured

Mr. A, after learning that he is not covered for the full value of his personal items, was put into a position to re-evaluate his policy in the wake of a major claim submission. His responsibility going forward would be to ensure his specific requirements were met within his policy. Mr. A has been hit hard with the financial burden of having to replace his original items with only 25% payout from his insurance. Going forward Mr. A also has higher premiums since his last claim; this is to adequately cover the household content that has now been specified at its full replacement value in his policy schedule.



## Possible solutions

Our advice for the prevention of this issue would be for Mr. A to immediately re-evaluate his current policy sums insured. He has the responsibility to ensure that all contents are insured for the current replacement value. Mr. A would then be able to comfortably say that he has the right cover for himself and his assets are protected in the event of a claim.

If you are unsure of the full replacement value of your items, get in touch with us. We have partnered with industry professionals that are able to assist with giving you tailor-made insurance at a personal capacity. We are able to put you in contact with people that have the protection of your lifestyle as a priority when handling your policy.

As an added benefit, IUM will temporarily increase the insured amount for loss of or damage to gifts and additional provisions at your residence occurring between one month before and one month after a wedding, anniversary, birthday, religious or other celebration under our household contents policy wording.



40%

**of consumers are  
under-insured**

according to Moneyweb

# How does being under-insured affect your business?

Huge financial losses could be imminent for business owners should the need arise to rebuild or make repairs to business structures or equipment that has suffered an insurance loss and are found to be under-insured. You have the responsibility to make sure your cover reflects the replacement value of your stock, equipment and/or buildings. With your growing business you may expand your premises, buy new equipment, install a new production line or diversify products. A common pitfall is not reviewing your policy regularly when these changes to your business are made. Should an accident take place that requires you to submit a claim, the value that you are insured for will unfortunately no longer reflect the true replacement value of your business' assets. Your insurance policy should be updated constantly as your business grows to ensure that you are sufficiently covered.

To prevent the assets within your business being under-insured we recommend taking the time to assess the potential risks your business could face. You and many other business owners could underestimate the importance of a proper assessment of your business. A business risk assessment includes the risks you face and what cover is available to you according to the unique risks your business may encounter. We are able to put you in touch with qualified insurance advisers who can assist with your risk assessment.

Like many business owners, your business is your livelihood, but running your business with the mindset of 'it won't happen to me' is detrimental to the cover you will receive in your policy. You may carry that mindset along with you when your policy is formulated in order to save on your monthly premiums but when an incident such as a burglary, delivery vehicle accident or equipment breakdown happens, it could cost you thousands to millions of rands in replacement costs for the sake of saving a few hundred rands on your monthly premium.

Commercial building owners are at a high risk of under-insurance with the costs of construction having increased over the last few years that they could be completely unaware of. Unless you are in the construction industry, underestimating rebuilding costs is almost a guarantee. Another issue is that as an owner, you could wrongfully believe the cost to rebuild and the current market value of the property are one and the same. This is something you could talk to your broker about to get a better indication of the costs involved with your building should you have to rebuild in the event of an accident.

**“The relationship between yourself and your insurance broker is pivotal in ensuring you are covered with the right level of insurance.”**

It's not uncommon for policy holders to simply forget to make adjustments to their policies when their business grows, this is why we recommend having your broker review your policy on a regular basis that will allow for any parts of your growing business that you may have overlooked. For example, you may have launched a new product that has been well received by your customers, now with the new business you are required to purchase more machines to keep up with the production demand but neglect to tell the insurer about these new additions to your business. If these improvements or items are not added to your policy, you will unfortunately not be covered. Your communication of your needs can provide the necessary specifications when building your policy, but your specifications are only impactful when communicated effectively and frequently between you and your broker. With your broker shedding light onto the serious risks associated with underinsurance and improper risk management, the peace of mind you will have with the handling of your policy can go far in helping your business continue to thrive.

You may only find out that your business is underinsured when you experience a major loss event and you need to make a claim. If your business is underinsured, it means that you possess policies but your assets are valued and insured at less than their true value, leaving your business poorly protected. Your short-term savings on your monthly premiums can never compensate for out-of-pocket payments you may need to make to cover your insurance payout in the event of an accident.

It is your responsibility to take action with your broker to ensure you increase your cover to suite your businesses requirements. You would benefit, in the long run, to review the contents specified in your policy on a regular basis and compare the prices that you paid for your assets to the prices it would cost you to have them replaced. It will be absolutely surprising how much your equipment has been upgraded or added to your business over a 6 month period, that should be included in your policy. We recommend every 6 months being the benchmark for how often you should be comparing the prices of your equipment and any other components that make up your business. This will primarily ensure that you are sufficiently covered, with the market prices of your assets changing on a regular basis, but will also help you avoid financial stress in the event of a claim.

**"We recommend that you compare the prices of your equipment and any other components that make up your business on an annual basis. This will primarily ensure that you are sufficiently covered, with the market prices of your assets changing on a regular basis, but will also help you avoid financial stress in the event of a claim."**

Your insurer will compensate you for the replacement cost of your buildings if you suffer loss or damage. But it is important to realize that you will only be compensated for the sum that is insured on your policy, this excludes your excess. On the other hand, if you do not have insurance for the full value of your buildings, your insurer will only compensate you for the percentage of insurance you do have available to you. This means that you will be responsible for the difference after you have been compensated by your insurer. Costs that you should take into account for your business insurance should include demolition charges, making the site safe, removal of rubble, fees for professionals and municipal fees.

For example: If you insure your business (the buildings) for R300 000 but its value at the time of the loss or damage is R600 000, your insurer might only compensate you for 50% of the loss you suffer.

The bottom line is that being an underinsured business owner could compromise your business' entire survival. A single loss event, no matter how minor, could be disastrous if a business is underinsured. You would then receive an insurance payout that would not be able to cover the losses you have suffered to return the business to its pre-loss position.

## The process of a claim

When you suffer a loss that results in you making a claim for your business or household contents, through an insured peril or burglary, an insurance assessor will be appointed by your insurance company to do a full inventory of the damaged items as well as the non damaged items where the incident has taken place. The assessor will add the value of all damaged property including property that is not damaged to make up the sum insured of the specific section that will respond to the claim. Your insurer will use the 'actual replacement value' amount and compare this to the 'total sum insured' that is covered under the specific section of your insurance policy. Please refer to your broker to advise which sections of your insurance policy this will apply to and specifically refer to the clause "Average" which is explained here above.

**"Your insurer will use the 'actual replacement value' amount and compare this to the 'total sum insured' that is covered under the specific section of your insurance policy."**

# Case Study

## Overview

Mr. B had fallen victim to a burglary that took place at his place of business. There was damage done to the entrance of the building, alarm system and desks that housed the now stolen computer equipment. He contacted his insurer and was advised to report the matter to his local police department to obtain a case number for his claim submission.

## Key Problems

Mr. B's business had become successful and he had employed extra staff to keep up with the demand. With the extra staff he had purchased new hardware and updated all of his current equipment to produce quality work. Mr. B had, as a result of the burglary, suffered a loss of expensive computer equipment, the software that was installed on these computers, damage to his building; alarm system and CCTV surveillance units. His business after the burglary had also come to a complete standstill due to that fact that his staff were not able to do any work due the loss of computer equipment. The damage that was done to his business has resulted in the building no longer being safe to house any other office supplies and documentation that was not stolen.

He has had to make arrangements to have these items stored in a storage facility for safekeeping. Mr. B made an appointment with his broker to discuss the items covered in the event of a burglary, as was the case. He was then told, after he had submitted his claim, that there were items in his place of business that were not specified in his policy. Once Mr. B had begun to expand his business over the course of 2 years, it was his responsibility to update his policy accordingly to ensure that his policy was updated as his business developed.

Fortunately for Mr. B, the damage to the building and security system would be covered by his policy. But he was now faced with the problem of not having the correct insurance cover to suit his business' specifications when it came to what he used to conduct his business with, such as the computer equipment. He had also not taken any business interruption cover, so he was not able to move his business to a temporary location to house his staff and what was left of his business while the claim was settled. Business interruption cover would allow Mr. B to get his business running in the same manner, or as close as possible to before the burglary happened.

## Why these problems exist

Mr. B's primary problem is the fact that he had no place to move his business while his claim was being processed. This was not helped by the fact that his hardware and software was not specified within his policy and he was then not fully covered to pay out the full value of his items for him to continue his business production. His business had grown to the point that should he suffer a loss, he would not be able to cover the financial strain his business would suffer if he was not able to continue business at the same time.

## How they impact the insured

Mr. B's business is directly affected because he is not able to conduct his business at the level it had been before the burglary. He was fully staffed and each employee was equipped with a pc with up to date software and telephone. He also had three heavy duty printers connected to all the computers in the office, all of which were stolen in the burglary. Mr. B could not continue his business due the loss that he suffered with the burglary that took place. His policy did not cover the items that were not specified in his schedule. This lead to him having to retrench his staff as his business had to close down indefinitely.

## Possible solutions

In order to prevent this Mr. B would be advised to immediately evaluate his current policy specifications. He needs to specify the cover he needs for his place of business that should include business interruption cover. He could also avoid being under-insured by keeping the communication between himself and his broker open to his needs as a business owner with a successful growing business. It is Mr. B's responsibility to keep an updated inventory of all the items he has adds to his business as it grows so that he is able to accurately update his policy accordingly. Mr. B would then be able to comfortably say that he has the right cover for himself and his employees to prevent his business coming to a standstill.



according to The Banking Association  
of South Africa



# How to avoid being under-insured

accidents happen. You owe it yourself and your business to adequately cover all the items you have accumulated.

The unfortunate reality is that many people tend to think that it's only electronic equipment and furniture that make up your household contents. To the contrary if you add up all the utensils, cooking equipment, pantry stock and clothing you will be surprised. These are little parts of your lifestyle that add up that could drastically affect you should you lose them in a fire or flood. Business owners, could be fully covered for each and every item in their building, but in the event of damage to the building that prevents you from running your business in the building itself, it is vital to have business interruption cover. This will protect your business and in turn your livelihood.

In conclusion, with the knowledge you have gained from this article you are now aware of the huge financial losses that you could suffer in the event of under-insurance. This has the possibility to affect your business and personal insurance, no part of your lifestyle should have less cover than the rest. With this information we urge you to take the time to re-evaluate your policies on a regular basis and utilise your broker to ensure that you are getting cover that is suited to your needs and lifestyle.

# Are you under-insured video

Ensuring you have the correct cover to suit your needs is the only way you will be properly protected should the time come to make an insurance claim. We are able to put you in touch with financial consultants who are available to you for advice and guidance to create a policy schedule that will give you peace of mind that you will not suffer any financial loss when

As you may already be aware of, when difficult situations arise they tend to happen all at once. We have created the video below as an example of how under-insurance can escalate and infiltrate all aspects of your lifestyle. To ensure this doesn't happen to you, speak to your broker about your policy.

Follow the link below to watch the video:



<https://www.youtube.com/watch?v=h5EUEEO6mA>

# Important questions

## **Can I just insure half of my household contents or will it be under-insured?**

You will be under-insured, the principle of average will apply.

## **If I am under-insured how will it be calculated?**

The 'sum insured' is divided by 'actual sum insured' x the loss you have claimed for will be the amount paid out to you.

## **Can my vehicle be under-insured?**

Yes if you don't insure the vehicle for the current retail value, however, average or the under-insurance condition in policies does not normally apply to vehicles.

## **Who works out the replacement value for my building?**

We recommend getting a professional valuator to assess and value your building based on the current building costs for the type of building insured.

## **And who is responsible for the cost of a survey?**

You, the insured, are responsible for the valuation unless the insurance company agrees to pay for it on special arrangement.

## **What must I do to make sure my jewellery is insured for the correct amount?**

Get your jewellery valued at an approved qualified jeweller and submit the valuation certificates to your insurance company.

## **If I bought an item for R30000 10 years ago what will the value be today?**

All items should be valued at least once every year to ensure they are insured for the correct replacement value.



**If I buy a laptop today for R15000 software included and it gets stolen 4 months later and the laptop range is discontinued how will I be compensated?**

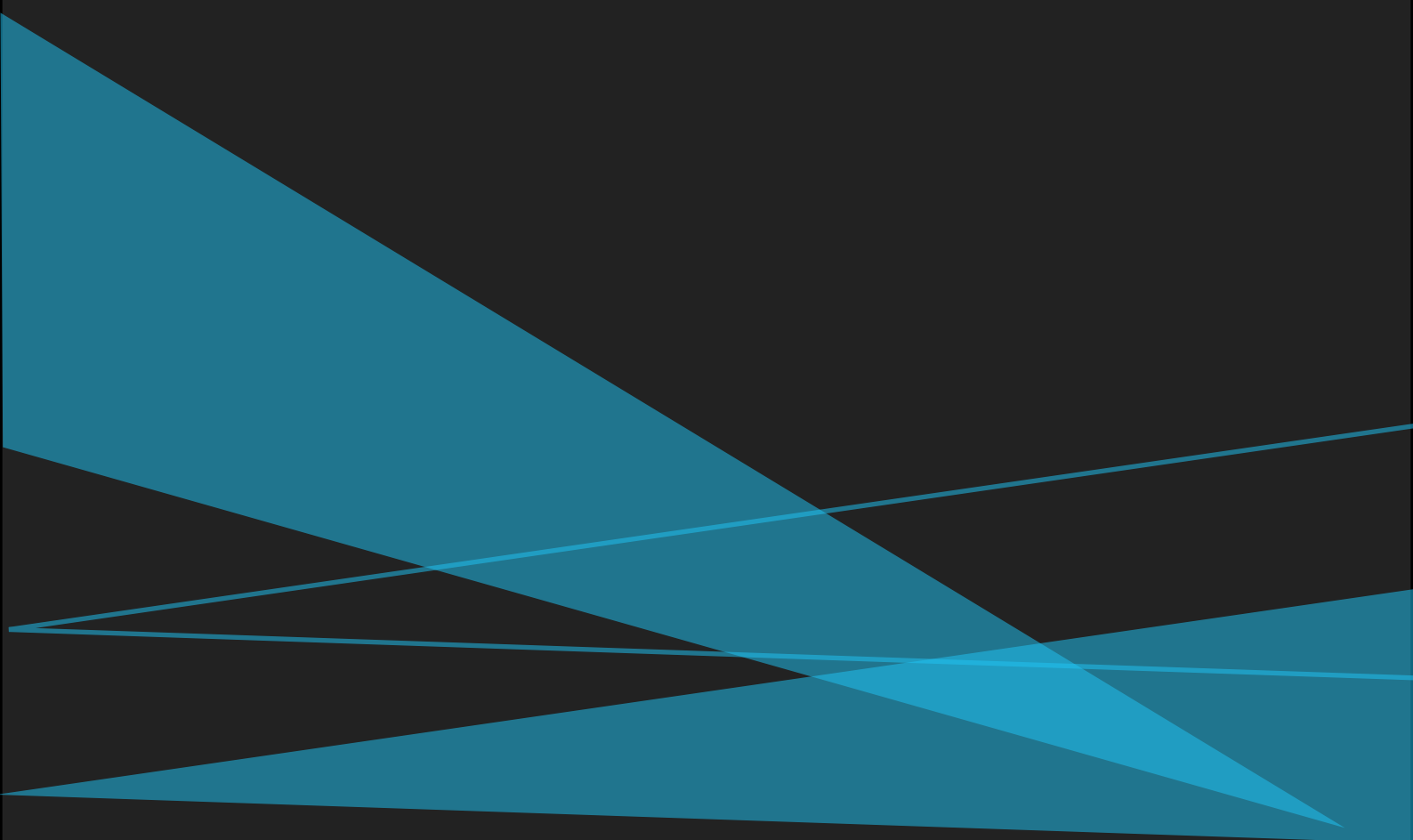
You have to be placed in the same position as you were in before the loss – so replaced with a similar laptop with the equivalent capabilities of the stolen laptop. Should it cost more, then cover will be limited to the sum insured stated in the policy schedule.

**If I don't specify my jewellery that's inside my house and there is a total loss will I be covered?**

Yes, however, cover is limited to the premises only. Some insurers limit cover to a percentage of the total household contents sum insured.

**How will inflation impact my items replacement value?**

Your insurer or broker needs to adjust your values once a year to avoid the risk of being under-insured.





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