The dangers of under-insurance

A significant proportion of consumers moving abroad under-insure their household goods – either by mistake or by design. As a result, they could lose out in the event of a claim. JOHN LUKER from Reason Global looks at the issues involved

When taking out insurance for household contents, consumers tell their insurer how much they think their possessions are worth (for instance, how much they would cost to replace if they were lost or damaged).

In many cases, consumers underestimate this value, either through genuine error or on purpose to keep premiums down – effectively leading to them being 'under-insured'.

Such under-insurance is common not only for home contents but also in respect of international marine shipments. For example, UK insurer Hiscox surveyed its policyholders and found that, on average, people had underestimated the value of their contents by 40 per cent.

In addition, many households have no cover at all; a 2010 report from the Insurance Council of Australia showed that 25 per cent of Australian households had no home or contents insurance.

EMILIE ZHANG / SHUTTERSTOCK

The impact of under-insurance

Under-insurance may become a problem in the event of a claim. In simple terms, being under-insured means that the policyholder is not able to claim for the full value of any losses they have sustained – so they lose out financially and cannot replace all of the items they have lost.

This is summarised in the following wording, which is standard for the majority of marine insurance policies: 'If you fail to insure for the full replacement value of goods at destination, you will only be entitled to recover from underwriters the proportion of the loss as the declared value bears to the total value of the property you shipped.'

In the case of moving a whole household abroad, this could involve significant sums. For example, the cost of replacing the contents of the average home could be as much as US$80,000.

If a client values their consignment at US$56,000, but the true and correct value is US$80,000, there are potential scenarios that can follow. In the circumstances of a total loss of the entire consignment, not only could insurers restrict their liability to the declared value of US$56,000 but they could quite rightly advise that, as the sum insured was under-declared on value by 30 per cent, they will only pay 70 per cent of the loss. So not only does the claimant – your customer – lose out on the US$24,000, but they may also only receive US$39,200, the original claim of US$56,000 being subject to a 30 per cent deduction for under-insurance.

In the event of significant damage to the consignment, an insurer may well decide that as the sum insured is not enough to cover the full value of the goods, they will then apply an 'average' when assessing a claim. For example, if the consignment was under-insured by 30 per cent, the insurers would then only settle on that basis.

Getting it right

The most important way to avoid being under-insured is to invest significant time and effort into

Continued on page 77 ▶

▶ Continued from page 75

calculating the value of goods. Your customers should be encouraged to do this and take great care in filling out their inventories. This may be time-intensive, but it is vital if they want to ensure that they are fully protected in the case of damage or loss.

Listing items separately on an inventory can also help. For example, if a customer has five televisions and estimates that they are worth $1,000 in total, the insurer will adjust the claim on the basis that each individual television is worth no more than $200. Therefore, if the customer then breaks one of the televisions and it is actually worth $600, they could only receive $200 from the insurer. The way to avoid this is by methodically listing items separately on the inventory.

Crucially, in the case of international moves, consumers must insure their goods for their full replacement value at their destination, rather than their origin. Consumers must be made aware of this and spend time on internet and other research into what their household items would cost to replace in the country they are moving to.

In some cases, consumers may be able to add a general increase to the value of their goods. For example, if a customer is moving to Singapore and they think that the cost of living is generally 10 per cent lower there, they may reduce their sum insured by 10 per cent. However, this is an inexact science and they may still end up over- or under-insuring their items.

Protecting your company's reputation has never been more important

Get in touch

Please contact **John Luker** at Reason Global on **+44 (0)1273 739961** or **johnluker@reason-global.com** for more information.

Tangible benefits

Ensuring that your customers are properly insured brings benefits both to you and your customers.

Most importantly, customers that have adequate insurance in place are likely to be happy – particularly in the event of a claim, as it should be paid in full.

By taking the time to ensure that your customer declares the correct and true value of their goods, you are adding value to the service you provide and, of course, on the basis of our above comments you could well see an increase of 30 per cent in premium income.

This reflects well on your business as customers purchase their insurance through you, so it becomes inextricably linked with your brand. A comprehensive policy that pays out in full when they claim? A big boost for your brand by association. On the other hand, an inadequate policy that lets them down when they need it most will significantly tarnish your brand.

This comes at a time when protecting your company's reputation has never been more important. The rapid dissemination of information around the world, on social networks in particular, means that any PR success – or disaster – will be known about in minutes. For example, if a customer posts a bad review of insurance they have purchased via your company on a high-profile expat website, it could seriously impact your business.

All of this means that going the extra mile to ensure your customers are fully insured results in a win-win situation for both you and your clients. FF