

**UNDER-INSURANCE (THE AVERAGE or CO-INSURANCE CLAUSE)**

Most Business (Property) policies contain a average or co-insurance clause. This clause was designed by Insurers to deter clients from under-insuring. Co-insurance is applied when there is a partial or total loss of assets and the values declared are significantly less than the full replacement cost of the property insured.

The clause was designed to ensure that the insured who accurately declares their property values is not subsidising another insured who pays a lower premium by under declaring their values.

Under this clause, any claim settlement is reduced proportionately, based on the level of under insurance revealed at the time of a claim.

In most policies the Co-insurance clause applies if the values declared are less than 85% of the replacement values, thereby allowing a 15% margin for fluctuations in values, or errors in valuation.

An example of how co-insurance is applied to a loss settlement:

Sum Insured (Declared Values)  
.....\$1,500,000

Total replacement value all locations  
.....\$2,000,000

85% for the purpose of co-insurance calculation.....\$1,700,000

A loss occurs at the insured's premises of.....\$ 500,000

*The information provided in this article is General in nature and should not be considered Personal Advice. You should seek advice before making insurance decisions*

Insurers claim settlement:

\$1,500,000

$$\begin{matrix} \$500,000 & \times & \$1,700,000 \\ & = & \$ 441,176 = \text{Amount} \end{matrix}$$

Insurer pays

Leaving an uninsured amount of: \$ 58,824 (Self Insured component)

**In simple terms if you are half insured, expect the insurer will only pay half your claim**

So how much insurance do you need? The sum insured needs to be calculated on the replacement cost of the property (New for Old), plus the cost for Removal of debris and any additional costs that may be needed to replace the property.

GJ Insurance Consultants have access to Cordell's buildings calculators to assist you with ascertaining an adequate cover, please give us a call and we can provide further assistance to ensure that you have the right covers.

Remember, the cost of full insurance isn't that much higher, but having inadequate cover at the time of a claim can be a devastating cost, that could close your business forever.

Please note: this same clause usually applies to the Business interruption section of the policy too.



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