



Underinsurance Explained

What is Underinsurance?

When you purchase an insufficient amount of insurance to cover the full replacement cost of your property, you are considered to be "underinsured". In practice, this means that you will not be able to recover the full amount that you claim in the event of damage to your property.

What's at Stake?

If you are underinsured, you recover only a portion of what you claim for your loss.

An explanation of fully insured versus underinsured is set out in the following examples with a typical 2% deductible.

Scenario 1 (Fully Insured)		Scenario 2 (Underinsured)	
Sum Insured (stated on your policy)	\$500,000	Sum Insured (stated on your policy)	\$350,000
True Replacement Cost of Your Property	\$500,000	True Replacement Cost of Your Property	\$500,000
Amount of your Claim (partial loss)	\$ 100,000	Amount of your Claim (partial loss)	\$ 100,000
Deductible based on True Replacement Cost	\$ 10,000	Deductible based on True Replacement Cost	\$ 10,000
Amount that will be paid by the Insurer	\$ 90,000	Amount that will be paid by the Insurer	\$ 60,000
\$100,000 settlement - \$10,000 deductible = \$90,000		\$70,000 settlement - \$10,000 deductible = \$60,000	

In **Scenario 1** you are fully covered since the Sum Insured is 100% of the Replacement Cost of the property. **You will only pay \$10,000** out of pocket (your deductible) to repair your property.

In **Scenario 2**, you are underinsured by 30% since the Sum Insured is only 70% of the Replacement Cost of the property. Your actual settlement is calculated by applying the 30% underinsurance penalty to your claim and subtracting the \$10,000 deductible:

Claim	\$ 100,000
Less: Underinsurance penalty	\$ 30,000
Subtotal of Settlement	\$ 70,000
Less: Insurance deductible	\$ 10,000
Total Paid by Insurer	\$ 60,000

You will only receive 70% of what you could have received had you been fully insured. **You will therefore need to pay \$40,000** out of pocket (deductible plus underinsurance penalty) to repair your property.

We therefore recommend that you obtain a **Replacement Cost Appraisal**, review your Sum Insured annually, and ensure that it reflects full Replacement Cost.

Let us guide you and help to steer you away from underinsurance.

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