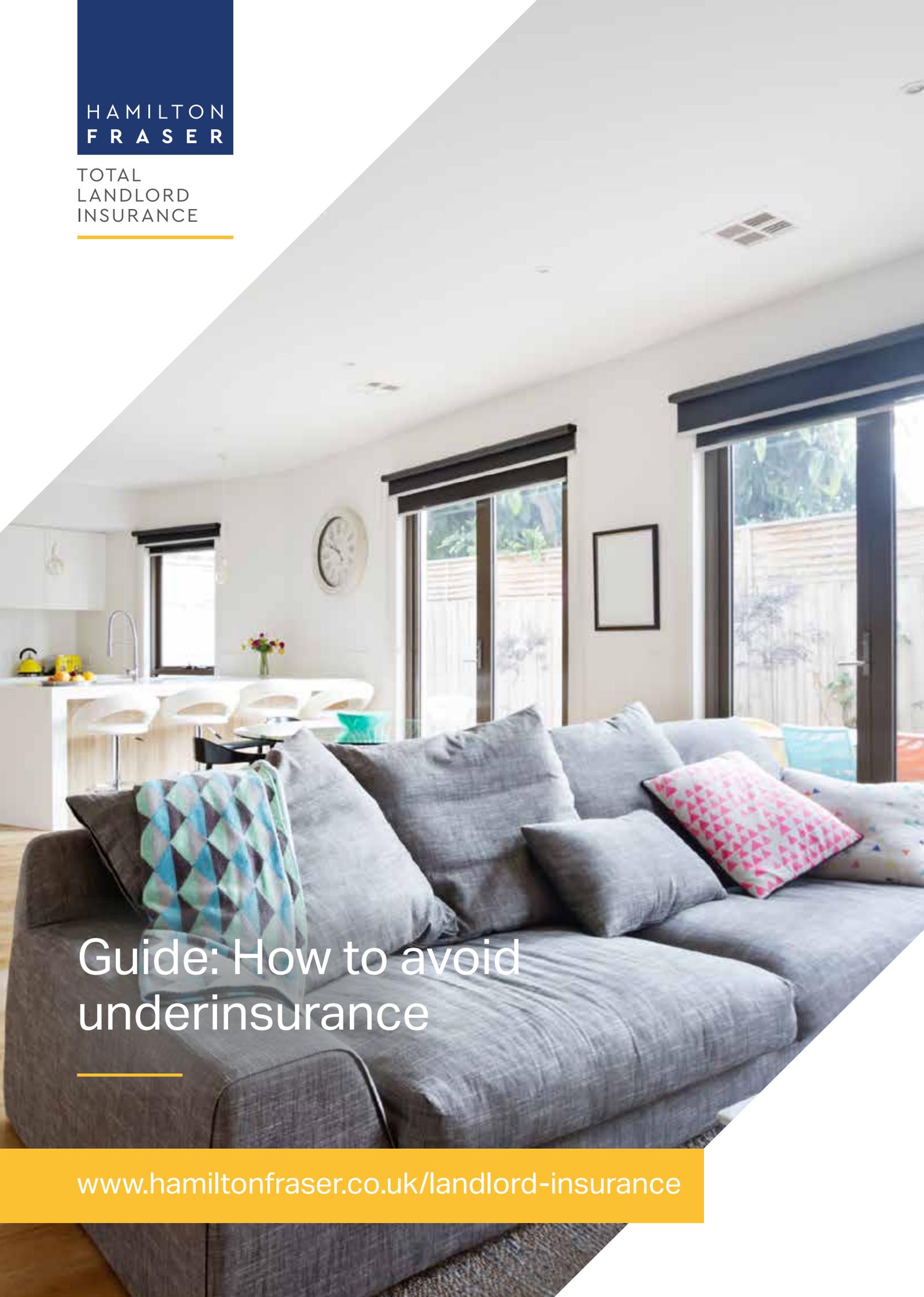


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Guide: How to avoid  
underinsurance

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[www.hamiltonfraser.co.uk/landlord-insurance](http://www.hamiltonfraser.co.uk/landlord-insurance)

# How to avoid underinsurance

As a landlord, it is your responsibility to calculate and declare the value of your rental property to ensure that it is insured to its full rebuild value. Failure to do so could leave you in financial turmoil in the event of a fire, flood or other serious loss.

## What is underinsurance?

This issue is much more widespread than you might expect, with statistics suggesting that at least 40 per cent of UK rental properties are underinsured. If you insure your property for less than it is worth then it is underinsured, and in the event of a claim insurers will not pay the full amount.

Landlords who underinsure their property could potentially lose out on thousands of pounds worth of claims that could have been avoided. How would you cope if you needed to find £45,000 of a £100,000 claim?

## Why do landlords underinsure?

Instances of underinsurance could be due to lack of information such as not knowing your property's rebuild value or simply an attempt to save money with a cheaper premium, and can include:

### Failure to take rebuild value into account

Buildings insurance works on the basis of rebuild value, as opposed to market value. If you insure your property for less than the rebuild value then it is underinsured. This would mean that in the event of a claim, insurers will not pay the full amount, they will apply what is known as 'average'.

For example: a landlord insures their property for £100,000, and makes a claim a few months later for £50,000 following an accidental fire caused by the tenant. The insurer assesses the actual rebuild cost to be £200,000 therefore only 50 per cent of the actual value (£100,000/£200,000) is covered. In this

scenario the insurer applies 'average' which means only 50 per cent of the £50,000 claim would be paid, leaving the landlord with £25,000.

### Failure to take out specialist landlord insurance

If a tenant causes damage to a property for example, the landlord would not be able to make a claim unless they had taken out specialist landlord insurance. With a specialist policy in place, landlords can avoid any unnecessary financial loss should the worst-case scenario actually happen.

### Failure to take loss of rent into account

If a landlord underestimates the time it will take to get the property back to a liveable or workable condition following an insurance claim, the loss of rent insurance may not cover a long enough period.

### Failure to carry out regular valuations of the rental property

Carrying out improvements to your rental property such as adding an extension will increase the value of the property, but will also impact the insurance value too. Similarly, a common underinsurance scenario occurs when a property owner simply renews their insurance policy year after year without making any updates that take market inflation into account.

## How to avoid underinsurance

Here are our top tips to help you avoid any unnecessary financial loss should the worst happen:



### Understand the terminology

Familiarising yourself with the language of insurance will help keep you fully informed. For example, 'buildings sum insured' refers to the cost of rebuilding the property if it was completely destroyed including demolition, removal of debris, local authority and professional fees. 'Average' means that if a property is underinsured, in the event of a claim, the insurer would proportionally reduce the pay out by the amount that the property is underinsured.



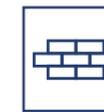
### Ensure that you have taken out a specialist landlord policy that is index linked

A standard home insurance policy will not protect you in the event of negligent tenant behaviour or damage to the property. You should also check that your policy is index linked, this will increase your buildings sum insured at each renewal by a percentage based on the BCIS House Rebuilding Cost Index.



### Get a professional property valuation carried out regularly (we recommend every five years)

This is particularly important if you have extended or altered your property,



### Ensure that you base your insurance cover on the rebuild cost rather than the market value

For sum insured purposes the value needs to include not only the main structure of the building but also external areas, walls and anything else on the site. The value will also need to include costs of demolition and removal of debris, costs of rebuild and materials and professional fees for services such as architects and surveyors associated with rebuilding. Professional fees can add up to 15 per cent to the overall costs.



### Act now!

Most importantly, don't wait until you need to make a claim – address any potential issues today by contacting your insurer to make sure that you are not underinsured.

Whether you have a single property or an entire portfolio, we provide comprehensive cover at a competitive price

For more resources and advice, please go to our website  
<https://hamiltonfraser.co.uk/knowledge/>

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