

A guide to  
underinsurance  
for Aviva  
Private Clients





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What is underinsurance and how does it impact you? In this guide we'll detail this frequently overlooked issue and how you can take steps to avoid it becoming an issue in your life.

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## Underinsurance – an overview

Studies show that between 70% and 80% of the UK's high net worth individuals are underinsured.\* But what is underinsurance and what does it mean to you?

When you take out insurance of any type, your premium is calculated based on your circumstances and the amount of cover you've told your insurer you need.

Underinsurance occurs when you've not taken out enough insurance cover to meet your needs. As a high net worth individual, assessing how much insurance you need can be complicated. There are a variety of factors to take into account, which place you at much higher risk of underinsurance than a standard insurance policyholder.

In this guide we'll walk you through the areas of risk you should consider and the steps you can take to ensure that the belongings you treasure are protected with the same care and precision with which you chose them.

\*70%–75% of UK properties are underinsured: 2015 Datamonitor report.  
160 out of 200 Aviva Private Clients are underinsured: 2015 Quastel Associates survey.



## Rising artists

Are you a collector of fine art?  
Many artists have seen vast increases in the market value of their works over the last five years, key among them:

- Glyn Philpot up 150%
- Pablo Picasso up 125%
- John Craxton up 100%
- Jean-Michel Basquiat up 100%.



# Why high net worth homes run a higher risk of underinsurance

The financial impact of underinsurance increases in line with the amount and value of your possessions. But there are additional factors particular to high net worth households that can further accentuate your susceptibility to underinsurance risk.

## **Appreciate the effect of appreciation**

Being underinsured is a common issue when it comes to items that tend to rise in value over the years, such as jewellery, watches, art, wine or classic cars. With such items, homeowners often reach their insurance figure based on purchase costs or historic valuations that bear little resemblance to a current-day replacement cost.

## **The power of market forces**

What's more, precious metals and stones are also vulnerable to fast-changing fluctuations in the global market – for example, the recent increase in gold prices will have accelerated the value of many jewellery pieces.

These factors mean that the replacement costs of such high value items are ever-changing, making regular evaluation from a professional essential.





### **Relatively speaking**

With multi-generational households on the rise, it's important to account for household possessions you may not be aware of. From expensive electronics belonging to your adult children, to heirlooms and antiques brought into the home by elderly relatives, any assessment of contents needs to involve the entire family to make sure nothing is missed.

### **Out of sight, out of mind?**

It's all too easy to overlook everyday items when assessing your general contents and the more rooms you have, the more opportunities there are to miss items of value hidden away in cupboards, wardrobes and under beds.

Quite often garages, attics and outhouses are full of large, high value objects that get missed when assessing your contents, such as bikes and tools, and skiing, camping, sporting and gym equipment.



## What items have seen large leaps in value in the last five years?

- 1 Coins and medals
- 2 1950/60s post-war furniture
- 3 Topographical books
- 4 20th-century British art
- 5 Modern first editions



## Could you be underinsured?

Are you sure every part of your world is protected?

Check through these 10 indicators of potential underinsurance to reassure yourself that nothing has been missed.

- 1. You don't know the true replacement value of everything you own** – arrange an appropriate schedule for regular professional valuations of property and contents at least every three years.
- 2. You've altered or extended your home** – any remodelling will affect the cost of rebuilding your home and is also likely to impact your contents' value as much as your building's, as more space usually means more contents to fill it.
- 3. You based your cover on the market value of your home** – insurance should be based solely on the rebuild cost and not the market value of the house. The rebuild value could be substantially lower than the market value, as it doesn't take into account the desirability of an area or the price of land. On the other hand it could be higher, if building materials are in high demand or the property market is in a slump. Either way, assessing the rebuild cost is something you'd need a professional surveyor for – we can help you with that.

Continued overleaf...



4. **You haven't factored in every external feature** – boundary walls, gates, fences, outbuildings, garden ornaments, swimming pools, tennis courts or car parking are often forgotten when considering what's needed to reinstate a property to its original state.
5. **Your property is a listed building** – high value properties have a higher likelihood of being listed so it is important to understand the listed status and how it could impact upon your rebuild value. The time and cost of repairs or rebuilds are usually far greater than for an unlisted building. It may be necessary to source hard-to-obtain original building stone and timber, hire labour intensive specialists or deal with complex logistics, so expenses can easily rise.
6. **You haven't accounted for the costs of professional fees** – rebuild or significant repairs to a building will demand the involvement of costly professionals such as architects, engineers and surveyors.
7. **Site clearance hasn't been factored in** – the costs of demolition, debris removal and professional fees will need to be calculated within the cost of reinstatement. This can be especially high if you have unusual access to your home. There may also be new building regulations that have to be complied with since the building was first erected, compelling you to incorporate features that weren't present before.
8. **You've inherited or been gifted items since your last assessment** – antiques, fine art and other collectibles should be valued by an expert to gain an accurate reflection of their market value.
9. **An artist whose work you own has died** – the death of an artist since you purchased their work can have a dramatic impact on the piece's value. If you are a collector of fine art, it's important to stay abreast of fluctuations in the market value of your collection.
10. **You've been through major life changes** – marriage, a death in the family or having a new baby can involve lots of additional items entering your home, which all need to be added to your contents insurance.



## Most commonly underinsured categories

- Clothing
- Luggage
- Books
- Carpets and curtains
- Kitchen equipment
- Wine and spirits

## Protecting your world with precision

Trying to ensure every last thing you own is correctly covered at all times is a tall order, but there are some practical steps you can take to greatly reduce your chances of being underinsured.

1. Don't rely on mortgage valuations or purchase prices for the building sum insured on your home. The rebuild value is often completely different so it's important to get professional help to calculate this.
2. Your contents sum insured needs to be the total value of everything you own. And remember that, when calculating your contents sum, you're not calculating what everything is worth now but what the cost of buying everything new at current prices would be.
3. Use our [home contents calculator](#) to get a general sense of whether your current contents insurance arrangements are adequate. For a more accurate assessment you should talk to us or your broker about the appraisal services available to you.
4. Be sure to update your broker upon purchase of any valuable items – ideally, consult with them prior to purchase to ensure you're never at risk.
5. Set aside sufficient time to meet with your insurance broker prior to your annual renewal, to talk through any large purchases, disposals or changes in your circumstances.
6. Set a schedule of regular valuations. These should be between once a year and every three years, depending on the value of, and market effect upon, key items in your possession.





# Take action to achieve full peace of mind

If you'd like to have any of your possessions valued, or obtain an accurate rebuilding cost for your home, we can help. We work closely with independent, professionally accredited experts, Quastel Associates and Barrett Corp & Harrington, whose valuations are carried out by qualified staff offering full UK coverage.

**If you think you may be underinsured, speak to your insurance broker to discuss getting the right cover in place.**





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