



INTRODUCTION - UNDERINSURANCE

Underinsurance is more common than you might think. It occurs when you have not taken the right amount of cover for your needs.

It can arise in a variety of ways. Congregations may fail to maintain an inventory of contents and be unaware of the extent of the items in their stewardship and the costs of replacement; valuations may be way out of date and fail to fully reflect present replacement costs; buildings may not have had a professional valuation by a firm skilled in the assessment of historic buildings for many years.

Whatever the reasons the consequences of failing to select an adequate sum insured for your Contents, Buildings and Income can be severe.

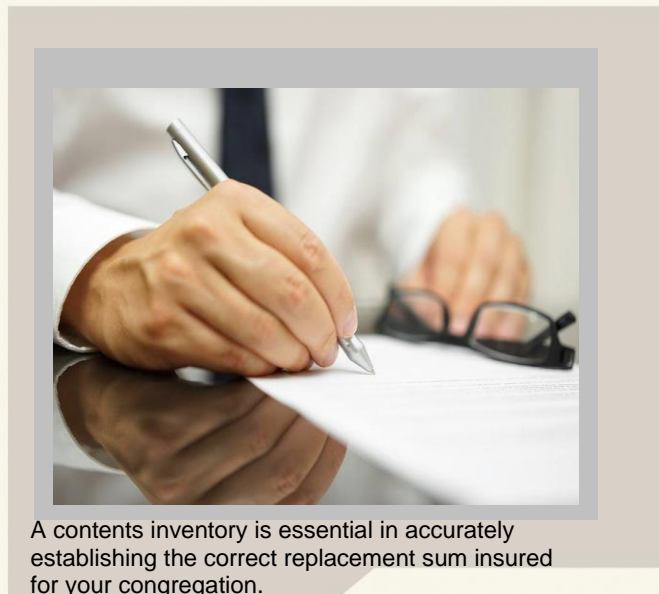
THE CONSEQUENCES

If after a claim underinsurance is found to be present the Insurance Act 2015 permits the insurer to impose an appropriate remedy. This means they could impose additional terms to the policy, limit or reduce the amount that is payable following a loss by the application of average for example, or in a worst case scenario use it as grounds to void the policy.

As a consequence and to put it in simple terms, if underinsurance is found to be present your congregation will have insufficient funds to replace or reinstate its Contents, Buildings and Income following loss or damage. This could be very costly indeed.

Let's explain how it could happen with reference to the application of average. Suppose a congregation insures its contents in the church and church hall for £20,000, but the true replacement cost is £40,000. If average is applied then it will receive only 50% of any claim submitted.

In the worked example opposite following damage causing a loss of contents to the replacement value of £10,000, the congregation would receive only half of the amount claimed, namely £5,000.



AVERAGE – A WORKED EXAMPLE

Sum Insured the congregation selected for contents cover.	£20,000
Actual replacement value of contents at time of loss.	£40,000
Actual Loss e.g. fire or escape of water.	£10,000
Calculation	Sum Insured / Value at time of loss x Actual Loss i.e. £ 20,000 / £40,000 X10,000
Amount actually due to be paid.	= a claims payment of £5,000 i.e. 50% of the Loss

GETTING THE NUMBERS RIGHT

The above worked example illustrates the severe effect of not choosing the correct sum insured. Overleaf we provide guidance and advice regarding selecting the correct sums insured for your congregation.



GETTING THE NUMBERS RIGHT (CONTINUED)

1. Don't rely upon inflationary increases that are applied automatically at renewal. If the sum insured or limit of indemnity is wrong to start with, there will always be a shortfall.

2. Do maintain a contents inventory of all moveable items, including floor coverings and white goods, (including in the Manse which is often forgotten about). We can provide an inventory template, please contact us if you would like a copy.

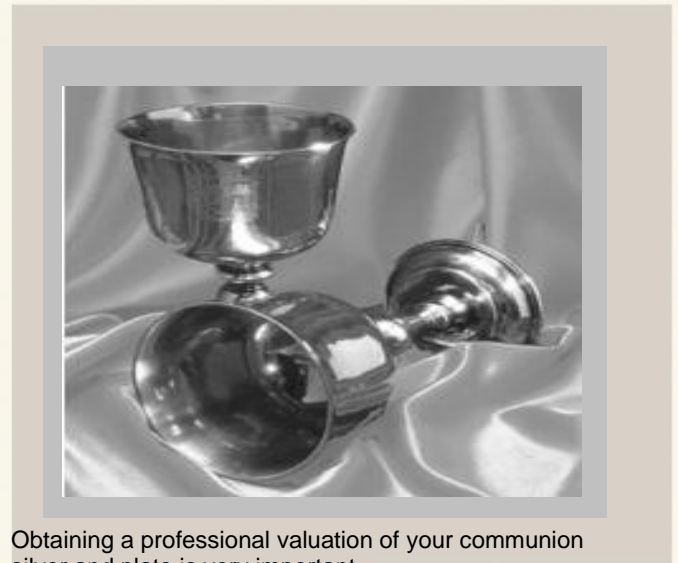
3. Do check the **replacement** values of your contents periodically (we recommend annually) to ensure that the sums insured you have selected are adequate. Don't forget to tell us if it needs to be changed.

4. Do obtain a professional valuation for any artefacts or items of communion silver and plate. Revisit this regularly to ensure it remains accurate (we recommend every 5 years).

5. Do make use of the services provided by the Church of Scotland Committee on Church Art and Architecture (CARTA). They can help with valuations of your communion plate. More information can be obtained by clicking [here](#).

6. Do arrange to have your buildings revalued periodically (we recommend every 5 years), by a professional firm with experience in valuing historic/listed buildings.

FOR FURTHER INFORMATION REGARDING THESE GUIDELINES OR ANY OTHER MATTERS RELATING TO YOUR CHURCH INSURANCE SCHEME POLICY PLEASE CONTACT US.



Obtaining a professional valuation of your communion silver and plate is very important.

7. Do consider the other limits on your Policy. The standard limit on the Church Scheme Policy for Loss of Income is £100,000 with a two year indemnity period. Do you need a higher limit or longer indemnity period? Please contact us if you would like further advice regarding this.

SUMMARY

The consequences of underinsurance can be very serious. We hope this brief guide will help you and your congregation to avoid suffering a serious financial shortfall following a loss.

To discuss any aspect of this circular please contact us.

Please call us on: 0131 220 4119

If you prefer you can e-mail us at:

enquiries@cosic.co.uk

Or visit our web site at: www.cosic.co.uk

The guidelines provided are based on our understanding of current law and practice. The Church of Scotland Insurance Services Ltd cannot accept any liability whatsoever for any errors or omissions which may result in injury, loss or damage, including consequential or financial loss. It is the responsibility of the congregation or any other person to ensure that they comply with their statutory obligations and any interpretation or implementation of the above is at the sole discretion of the congregation or other party who may read these guidelines.