

Under-insured (Insurance)

What does this mean?

Under-insured means a property, asset, or person is insured for **less than its actual value or required coverage**.

This happens when the Sum Insured is lower than the real cost of rebuilding, replacing, or covering the risk.

In simple terms, you have insurance, but not enough insurance.

Why is this Important?

Leads to reduced claim payout

If the insured amount is too low, the insurer pays only part of the loss.

Triggers the Average Clause

Underinsurance often results in proportional claim settlement.

Creates financial burden during emergencies

The remaining loss must be paid from personal savings.

Common and often unnoticed problem

Many people underestimate reconstruction costs or value of belongings.

How does it Happen?

Underinsurance usually occurs when:

Property value increases but policy is not updated

Inflation increases construction or replacement costs

Renovations or upgrades are not declared

Belongings are underestimated

Policy is chosen only to reduce premium

How does it Work in Insurance Claims?

During a claim, the insurer compares:

Actual value of property

Sum Insured in the policy

If the Sum Insured is lower, the claim is reduced proportionately using the average clause.

This means you share the loss with the insurer.

Where is Underinsurance Common?

Underinsurance can occur in:

Home and property insurance

Contents insurance

Health insurance (low Sum Insured)

Life insurance (insufficient cover)

Business insurance

When Should You Review Coverage?

You should review insurance:

At every policy renewal

After renovation or major purchases

When construction costs increase

When lifestyle or business assets grow

Regular review helps avoid underinsurance.

Simple Example

Ravi's house reconstruction cost is ₹80 lakh, but he insured it for ₹40 lakh.

A storm causes damage worth ₹20 lakh.

Since the property was insured for only 50% of its value, the insurer pays only ₹10 lakh.

Ravi pays the remaining ₹10 lakh himself.

Key Points to Remember

Insurance coverage is lower than actual value

Results in reduced claim payment

Triggers average clause

Common due to outdated valuation

Regular review prevents underinsurance

Simple Summary

Under-insured means having insufficient insurance coverage, which leads to partial claim payment and higher out-of-pocket expenses during losses.