



What does the ‘average clause’ mean for your care organisation?

The average clause might not sound too exciting, but it needs to be on your radar – otherwise, it might cost you.

Here we explain the average clause and what it means for your care organisation.

Underinsurance: the hidden risk facing care homes

You’ll often hear the average clause spoken about alongside underinsurance. Underinsurance is what happens when the cover you’ve taken out is lower than it needs to be. In other words, the amount you’ve insured something for is less than its actual value. It’s a common issue.

Most care homes are unaware they’re underinsured until it’s too late; they make a claim, and their claim is either rejected or pays out a fraction of what they’d expected. That’s because an insurer, once they discover you’re underinsured, applies what’s known as the average clause.

How does the average clause work?

Imagine that your care home would cost £200,000 to rebuild, but you’ve only insured it for £100,000 (half the amount you need).

If a fire burned down the home, and you had to make a claim for a total property loss, the insurer would apply the average clause and pay out a maximum of £100,000 because you didn’t have enough cover to begin with. You’d then have to find the funds needed for the repair yourself.

The average clause also impacts partial claims, too. Let’s say you’re underinsured by 50% (as in the above) and your property is partially damaged. You make a claim for £20,000. Even though you’re insured for £100,000, you’re still underinsured by 50%, bringing the requested £20,000 down to £10,000. That means you’d have to cover the remaining £10,000 yourself.

Why does underinsurance happen?

Underinsurance is a very common problem, partly because people often confuse rebuild cost with market value. So, they insure the property for the price it would sell for, rather than what it would cost to rebuild the property from scratch including labour, materials, planning permission, architect fees, etc.

Did you know that it’s not just property that can be underinsured? Contents, specialist equipment, and even technology that’s vital for day-to-day operations can all be underinsured. To check you’re in the clear, speak to a friendly Everywhen advisor.

Want more clarity on insurance terms?

Get in touch with James Anscombe on 07967 850015 or email james.anscombe@everywhen.co.uk.

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