

Don't poorly insure your property

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Avoid penalties for being under-insured by making sure your insurance is updated.

Consumers who have not updated their short-term insurance this year are in for a shock - they are not adequately protected against rising replacement costs particularly given that inflation is running at 15%.

The risk of accidents and theft traditionally increases during the festive season as people intensify leisure and travel activities; go on holiday - leaving their property and assets unattended.

In tough economic conditions, it is important for people to ensure that their assets - including dwelling houses - are adequately protected against rising replacement costs and to adjust their insured values in accordance with inflation.

And for businesspeople who import assets - plant, machinery and equipment, the volatile currency makes it even more crucial to ensure that their insurance values are accurate.

Most insurance policies on commercial assets, such as buildings, contents and equipment, are based on the indemnity (claim settlement) on the new replacement value of assets.

Most policies refer to the 'average clause.' If a business property is insured for sh500,000, but at the time of the loss, it is established that the new replacement value is sh1m, all claims will be reduced by 50%.

The simple explanation is that because the insurance company effectively only received 50% of the premium - based on the new replacement value - it will only be in a position to pay 50% of any loss.

It is critical to ensure that the sums insured are adjusted at least - annually

to compensate for rising inflation.

The value or cost of an item generally increases with inflation each year.

If you insure your premises for the correct amount in January and the loss occurs in December, the value will be too low, and this will certainly be reflected in the payout you receive from your insurance company.

Where businesses import plant, machinery and equipment, the sums insured must be adjusted not only in accordance with inflation, but also to take into account changes in exchange rates.

This is critical importance especially now in Uganda where we have seen the value of our currency erode by 20% against the US dollar over the quarter of this year!

The replacement value of the imported item will be determined in accordance with the rate of exchange applicable at the time of the loss.

Although it is essential that assets are insured at their correct inflation-adjusted values, it is important to note that some assets, such as motor vehicles, decline in value.

Policyholders must, therefore, adjust their vehicle values to ensure that they are not paying excessive premiums.

Similarly, as technology evolves and becomes more commonplace, electronic goods tend to become less expensive.

Commercial and individual policyholders need to bear this in mind when establishing the replacement value of their assets, as part of an overall risk management strategy.

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