

THE AVERAGE CLAUSE

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What is the Average Clause on an Insurance Policy?

Have you ever had an insurance claim reduced because of the average clause being applied? This may help you understand what this is and how to avoid this.

When you insure your assets, like your home or specific items in your home, you would provide your broker with your latest valuation. This would tell them of the “insurance value” which then forms the amount for sum insured under your policy. Your insurer charges you a premium based on this amount.

Getting regular valuations is important, especially if you have recently done repairs or refurbishments to your home. If you happen to get this insurance value incorrect and it is lower than the real value of your home or the various items insured in it, then your premium will be based on the wrong value and will be lower than you should have paid to cover the property at risk.

If you received a full insurance payment however you had only paid a portion of the premium due to the incorrect value being insured, then the full replacement value will not be paid out. To protect insurers in this scenario, the policy includes a Condition of Average clause.

Simply, the Condition of Average says that if you declare an insured value that is X% of the true value, then you have only paid X% of the premium due and will only receive X% of the claim. An example:

Your insured value is R1 000 000.00, it should be R2 000 000.00, meaning you are 50% insured.

If you have a claim for R50 000.00, the Condition of Average will be applied and you will only be paid out 50% of the claim, after excesses have been paid.

It is important to note that the excess will be deducted after the claim has been reduced by the average, so the impact is not watered down. This might seem harsh, but insurers want to encourage customers to think carefully about insurable values and declare these honestly as to contribute a fair premium.