What You Should Know about

THE AVERAGE CLAUSE

Notice Explaining the Nature and the Effect of the Pro Rata Condition of Average (Average Clause)

The following policy types issued by us contain a pro rata condition of average (average clause):

- Boiler and Pressure Vessels
- Burglary
- Commercial All Risks
- Computer All Risks
- Consequential Loss
- Contractors' All Risks
- Contractors' Plant and Equipment
- Deterioration of Stock
- Equipment All Risks
- Erection All Risks
- Fire and Allied Perils
- Home Protection
- Industrial All Risks
- Low Voltage and Electronic Equipment All Risks
- Machinery Breakdown
- Residential PSP Package Policy

Where a policy contains an average clause, this should be indicated clearly on the cover of the policy, otherwise the average clause will be void and of no legal effect.

If your policy contains an average clause, it means that under certain circumstances, if the value of the property covered under the policy is, at the time of any loss or damage from an insured peril, greater than the sum for which the property is insured, you will only be entitled to recover under the policy such proportion of the loss as the sum insured under the pol icy bears in relation to the value of the property, less any deductible not covered by the policy. You are said to be under-insured because the sum insured at the time of the loss is less than the value of the insured property and so a part of the insured loss will not be covered under the policy. In this case, you are considered as being your own insurer for the part of your loss which is not covered under the policy.

For example, should you have a property which has a value of $I 0,000,000 and you insure it for $7,000,000 and you suffer a loss from an insured peril, there are three possible scenarios depending on the size of the loss. The formula that is applied in each case is set out below:

$$\frac{\text{Sum Insured}}{\text{Value}} \times \frac{\text{Amount of the loss}}{1} = \frac{\text{Amount Recoverable}}{1}$$

Example 1: Where loss is less than value and sum insured:
Assuming the loss is $5,000,000
$$\frac{\$7,000,000}{\$10,000,000} \times \frac{\$5,000,000}{1} = \frac{\$3,500,000}{I}$$

You will be paid $3,500,000 of 70% of your loss less any deductible Stated in the policy.

Example 2: Where loss is less than the value but greater than sum insured:
Assuming the loss is $8,000,000
$$\frac{\$7,000,000}{\$10,000,000} \times \frac{\$8,000,000}{1} = \frac{\$5,600,000}{1}$$

You will be paid $5,600,000 or 70% of your loss less any deductible stated in the policy.

E**xample 3**: Where loss is equal to value:
Should you have a total loss, that is, $10,000,000 then you will only receive the amount you insured the property for, that is, $7,000,000 less any deductibles stated in the policy.

Under other circumstances where you under-insure, you may be entitled to the full amount of the insured loss i f the sum insured is equal to or more than a specific percentage of the value, as stated in the policy. This will depend on the terms of your policy.

Please review the terms of your policy carefully, and check on the adequacy of the sum for which the property is insured or to be insured. This will enable you to identify whether you are or will be under-insured in a manner which will cause the pro rata condition of average detailed in your policy to be applied. You may check with your insurer, agent or broker for further clarification on the terms of your policy and the nature and effect of the pro rata condition of average contained therein.

Voice of the Insurance Industry

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