

Are U Insurance SMART?

My neighbour had a fire in her kitchen recently, but she did not get the full payment for her claim. It seems it is because she did not insure her property for its full value. Why is that so?

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- 1 If you do not insure your property at full value, the "average condition" will apply and you cannot claim for the full amount of loss. Let's say, the full value (also known in the industry as the "rebuilding cost") of your house is RM500,000 and you have insured it for RM400,000. If you suffered a loss on the property estimated at RM100,000, the average condition will apply and you will only be paid RM80,000.

In short, if you only insure 80% of the full value, you will be paid 80% of the claimable amount. This amount is calculated as follows:

$$\text{Claim amount} = \frac{\text{Sum insured (RM400,000)}}{\text{Rebuilding cost (RM500,000)}} \times \text{Loss (RM100,000)} = \text{RM80,000}$$

- 2 That's why you must make sure that the sum insured should cover the cost of completely rebuilding your property in the event of loss or damage. Take into account the renovations and enhancements you have already made.

"Are U Insurance Smart?" is an initiative by MSIG Insurance that provides answers to questions about general insurance that you may not know enough to ask. Visit www.msig.com.my regularly to stay updated.

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