



**Notice Explaining the Nature and the Effect of the Pro Rata Condition of Average (Average Clause) in Accordance with Regulation 126 (5) of the Insurance Act.**

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

1. Commercial All Risk
2. Fire & Allied Perils
3. Homeowners policies
4. Strata Policies
5. Consequential Loss
6. Burglary
7. Engineering Classes - Computer All Risk, Machinery Breakdown, Equipment All Risk, Contractors Plant and Equipment All Risk
8. Contractors All Risk/Erection All Risk
9. Goods In Transit
10. Office Surgery Protection
11. All Risk
12. Plate Glass

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 policy 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 **\$10,000,000** 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 the loss is less than the Value and Sum Insured:**

Assuming the loss is \$5,000,000

$$\frac{\$7,000,000}{\$10,000,000} \times \$5,000,000 = \$3,500,000$$

You will be paid \$3,500,000 or 70% of your loss, less any deductible stated in the Policy

**Example 2: Where the loss is less than the Value but greater than the Sum Insured:**

Assuming the loss is \$8,000,000

$$\frac{\$7,000,000}{\$10,000,000} \times \$8,000,000 = \$5,600,000$$

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

Example 3: Where the loss is equal to the 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 deductible stated in the policy.

Under other circumstances where you under-insure, you may be entitled to the full amount of the insured loss if 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 **JNGI**, your 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.