Why Regularly Reviewing Your Insurance Cover Matters: Avoiding the Pitfalls of Underinsurance

Ndaizivei had always been proud of his Toyota Hilux. It was not just a car, but a symbol of years of hard work. He bought the vehicle for US$20,000, in May 2024, after selling his tobacco crop.

Encouraged by his cousin, Martha Tigo, who had once faced financial hardship after her own family suffered without insurance, Ndaizivei insured the vehicle on comprehensive cover in the local currency immediately. At the time, Zimbabwe had just introduced the Zimbabwe Gold (ZWG) as the local currency, and the official exchange rate stood at US$1:ZWG13.56. His new vehicle's value translated to about ZWG270,000 at the official exchange rate. It gave him peace of mind that, should anything happen, he would not be left stranded.

When the policy was due for renewal in September 2024, Ndaizivei simply insured the Hilux for the same value of ZWG270,000. What he overlooked, however, was the sharp devaluation of the local currency announced by the Reserve Bank of Zimbabwe in September 2024 by then, the market value of his Hilux had already risen to around ZWG500,000. But because he failed to review and adjust his cover, the insured value of his car remained at ZWG270,000 against the actual/replacement value of ZWG500,000.

On 21 December 2024, tragedy struck. On his way to his rural home in Sanyati for the festive holidays, a haulage truck swerved into his lane. The collision left the Hilux a wreck, beyond repair. Thank goodness, he escaped unscathed, but the financial aftermath would prove just as bruising. With the vehicle written off, Ndaizivei filed his claim, expecting the insurance to cover the replacement cost of a similar car.

Instead, he learned a painful lesson about the average condition. The insurer's assessor valued the Hilux at ZWG500,000, its current market replacement value. But because Ndaizivei had insured the vehicle for only ZWG270,000 and never reviewed his policy, the average condition was applied. His underinsurance had left him with a massive shortfall. Ndaizivei's claim payout was cut down to about 54% of the market value.

This story is fictional and meant to illustrate common challenges policyholders face when they fail to review their insurance coverage. The lessons about the average condition, however, are real.

What Is the Average Condition?
The average condition is a standard insurance principle applied when an asset is insured for less than its replacement value. If you underinsure, your claim is reduced proportionally.

In Ndaizivei's case, his Hilux was worth ZWG500,000 at the time of the claim but insured for only ZWG270,000, about 54% of its market value. So, the insurer treated him as his own co-insurer and paid only 54% of the value, leaving him to cover the rest.

This principle ensures fairness across policyholders, discouraging deliberate underinsurance. But for unsuspecting clients like Ndaizivei, it can feel like a cruel penalty for failing to regularly review and update insurance cover.

Why Regular Reviews Matter
Insurance policies are not "set and forget" contracts. Especially in an economy where asset values can change rapidly. It is critical to periodically review the sums insured whenever there is a currency devaluation or inflation.

By reviewing insurance policies more frequently, whether during periods of inflation or not, policyholders ensure that their cover reflects true replacement costs, avoiding nasty surprises at claim time, like what happened to Ndaizivei.

Beyond Cars: The Average Condition Affects All Assets
Ndaizivei's experience is not unique to cars. The average condition applies to a wide range of insurance policies:

- **Property/ Building:** Imagine a house insured for US$30,000 when its replacement cost is US$60,000. If a fire damage of US$20,000 occurs, the payout will be cut in half, leaving the homeowner to cover the remaining $10,000.
- **Household Contents:** Families/people often fail to update policies as they acquire new goods. A burglary or fire could expose them to large losses because the cover was never adjusted to match the real value of their belongings.
- **Machinery/equipment/stock:** Some businesses, including Micro-Small and Medium-sized Enterprises (MSMEs), insure stock or equipment based on outdated valuations. In the event of a fire or theft, insurers reduce payouts proportionally, which could cripple or close a business.

The lesson is simple: the condition of average is universal. Whether it's your car, house, furniture, or business stock, if you undervalue the asset, your claim will be reduced. Conversely, overvaluing assets only results in higher premiums without additional benefit because insurers will never pay above the true replacement cost as insurance is not for betterment.

Ndaizivei's painful lesson with his Hilux is a reminder that failing to review policies regularly can leave you exposed at the very moment you need protection most.

About IPEC
The Insurance and Pensions Commission (IPEC) is a statutory body established in terms of the Insurance and Pensions Commission Act [Chapter 24:21] to regulate the insurance and pensions industry for the protection of policyholders and pension scheme members.

For feedback or enquiries, please contact us at: pr@ipec.co.zw.