

## Quadrant II - Notes

**Paper Code:** COG 117

**Module Name:** Average Clause: Preparation of Statement of Claims

**Module No:** 03

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### Meaning of Average Clause

A condition by which an insurer determines that the payment for any damage or any loss will be in proportion to the value insured.

In other words, a part of an insurance policy that states that if the insurance value of a property at the time of loss or damage is less than its real value, payment by the insurance company will be reduced according to the difference.

### Average Clause in Fire Insurance

To take care of cases of under-insurance, there will be an average clause in fire policy. This means that in case of loss the insured has to bear a part of the loss. The insurer will only bear rateable proportion of the loss. In other words, for the difference between the actual value of subject matter and the amount for which it is insured, the insured has to be his own insurer.

Since the Fire Insurance Policy is a contract of indemnity, the insured cannot claim more than the actual amount of loss caused by the fire.

According to the average clause in the Fire Insurance Policy,

- If the actual cost of the goods/property is higher than the sum insured for such goods/property, then the insured has to bear the difference.
- The insured must bear the cost arising due to the difference between the actual value of goods/property and the amount for which it is insured.
- The insurers or the insurance company will only pay for the rateable proportion of the loss.

- The average clause applies only when the sum insured is less than the actual value of the goods or the property.

### **Conclusion**

- As per the Average Clause in the fire insurance policy,
- The liability of the insurance company is reduced as per the application of the proportionate approach.
- The insurers do not pay the full amount of loss incurred to the insured.
- The insured is then responsible for the payment of the unpaid claim amount.