

BUSINESSES AT RISK OF UNDERINSURANCE

Some businesses may be tempted not to engage with their insurance broker to get proper advice, but rather just opt for the cheapest insurance they can find themselves. As a consequence this could lead to an increased risk of underinsurance. Underinsurance can result in inadequate claims settlement or no claims settlement at all and can therefore be damaging to any business.



GET REGULAR VALUATIONS

Regular professional valuations are the best way to ensure adequate sums are insured.

There are many factors that can affect property valuations, business interruption calculations and the adequacy of indemnity periods.

For example availability of materials, fluctuating labour costs, changes to legislation and changes in the property market all have the potential to significantly change a final reinstatement cost.

The cost of engaging a valuation specialist will be minimal compared to any potential shortfall in claims should a business suffer a major loss.

CONSIDER BUSINESS INTERRUPTION

Business interruption is a common problem area for underinsurance.

Some confusion is due to the fact that insurance gross profit is calculated differently from the accountant's version (e.g. the former takes into account fixed costs). This is a key distinction and can be a source of underinsurance. A fundamental concept of business interruption insurance is the indemnity period. Indemnity periods are often inadequate. Many businesses choose a 12 month maximum, which is frequently insufficient.

When looking at indemnity periods, businesses need to consider:

- what length of time it would take to get a site where the damage has taken place cleared, plans drawn up and architects and contractors appointed? This will be time incurred before any remedial works could even start. Will planning or other permissions need to be agreed?
- would they be able to sub-contract work so their customers are still looked after or would they maybe lose them to a competitor? If so, how long will it take to replace them?
- would there be any delays or extra costs involved in sourcing damaged or lost specialist pieces of plant machinery?
- could any seasonal trade, on which they are dependent, be affected?
- have staff salaries been considered as part of the Gross Profit sum insured? Without maintaining salaries, staff may leave, adding to the problem of incurring additional costs in employing new staff.
- do they have a well thought out contingency plan in place?

According to the Chartered Institute of Loss Adjusters, 37-52% of business interruption policies are underinsured with an average shortfall of 45-63%.

If a business is unsure if their business interruption cover is adequate, their broker can help them with their calculations.

ENSURE BUSINESS CONTINUITY PLANNING IS IN PLACE

Whilst insurance can play an invaluable role for any losses incurred, implementing pre loss preventative measures are more important. An effective business continuity plan can make all the difference to the size of a loss and the ability of a business to continue trading and make a full recovery.

Business continuity planning can help a business understand what risks they are facing, how best to combat them, and to check their insurance cover is adequate in the event of a large range of scenarios.

This puts the business in a better position to assess and plan for the probable consequences, thereby hopefully reducing the period over which they will be affected by a loss.

GET IT RIGHT

There have been many cases where businesses have not been able to recover from a large loss due to the inadequacy of their insurance.

Underinsurance can be a complex issue but by working through the above areas with their broker businesses can make sure that they are effectively covered.

If you want to discuss valuations for your buildings, machinery and plant or business interruption, please contact us.