

Under Insurance – What’s the big deal?

What is underinsurance?

Your insurance premium is calculated on individual circumstances and the amount of cover you choose to take out to protect your business. Underinsurance occurs when you haven’t taken sufficient cover for your needs.

What does it mean if you are underinsured?

If you are underinsured, this will mean that any claim will be insufficiently covered.

For example, if the cost to replace your machinery and contents is £200,000 but you take out cover for £100,000, you would essentially be underinsured by £100,000 or 50%. Any claim that you make will only be paid on the basis of the amount of cover you have chosen. In this example you would only receive 50% of any claim that was made on the contents thus leaving you to fund the remaining costs yourself.

How big is the problem?

Looking at a sample of 383 clients where underinsurance was a problem in 2014, Aviva’s survey team referred 206 commercial property clients for a professional valuation. In the remaining 177 cases, their own risk management surveyors found that each customer had effectively underinsured their business by, on average, £486,000.

Aviva’s specialist valuers, Barrett Corp & Harrington, say that on average 77% of the properties they survey are underinsured by 45% of the correct insurance.*

*Source: <http://www.bch.uk.com/>

How do I know if I’m underinsured?

You could be under insured if:

1. You haven’t had your buildings professionally valued for insurance purposes in the last 3 years.
2. You have altered or extended the property.
3. Your insurance cover has been based on the market value of the building when it should be on what it would cost to rebuild your property.
4. You haven’t factored in costs for gates, fences or car parking areas in your calculations.
5. Your property is a listed building – the time and cost of repairs/rebuilds are likely to be far greater than for an unlisted building, impacting on your business interruption cover.
6. You haven’t factored in the costs of professional fees such as an architect or surveyor.
7. You haven’t considered costs such as site clearance or access, particularly where your business might need, for example, a crane or heavy plant to help with remedial work as a result of a claim. This could also add time that needs to be taken into account for your business interruption cover.
8. You are carrying more stock now than when you started your insurance policy.

9. You are now VAT registered.

10. You have some new plant and equipment that you haven't told your broker/insurer about.
This could impact on both the machinery cover you have and the business interruption you need, depending on how long it would take to source a replacement, if necessary.

If you are unsure of any of the above or would like some advice, please do not hesitate to contact me on 01384 375 555 or lawh@ihnsure.co.uk Thank you.