

REVIEWING YOUR SUMS INSURED – A GUIDE

It is important you regularly review your sums insured to ensure you are purchasing insurance that is adequate to protect your business in the event of a claim. The stress and financial impact of underinsurance can be avoided by ensuring you have taken the correct steps to request insurance at a sufficient level.

What is underinsurance?

Underinsurance is where you have not taken out adequate insurance to cover your needs. Taking out insufficient insurance will mean any claim will be insufficiently covered. Insurers will apply **Average** when adjusting a claim. This is the process by which insurers will reduce the claims settlement by the amount of underinsurance.

How could the application of average affect settlement in the event of a claim?

If you have insured your building for reinstatement at £2,500,000 but the correct reinstatement figure is £5,000,000, the building would be underinsured by 50%. Insurers would therefore only look to settle half of any claim made as would only respond to the percentage of cover that had been taken out. So as an example, if a water damage claim for £3000 was made, insurers would only look to pay £1500.

The impact of increasing your sums insured on the annual premium

We understand the financial challenges of running a business. Increasing your sum insured could have an impact on your premium but being correctly insured is essential. Insurers could look to refuse paying claims in their entirety should they consider a policyholder to be knowingly underinsured in order to save on premium costs.

Buildings

Check your policy wording to see what the definition of buildings is, it may need to cover more than you may think!

- Remember your reinstatement sum insured needs to include many costs aside from the building itself. Think about the cost of debris removal, architects/surveyors fees, outbuildings, carparks and other outside areas. It also needs to include the payment of VAT if you are unable to claim this back.
- Please don't confuse a reinstatement valuation with the market value of the building, the market valuation is not used for insurance purposes.
- Has a professional buildings valuation for insurance purposes been carried out within the last three years? If not, how was the sum insured arrived at when a policy was first taken out? We would always recommend a professional valuation to ensure your reinstatement sum insured is correct.

Contents

- Imagine you had to replace every item of 'machinery, plant and all other contents' with brand new equipment. The Contents Sum insured needs to be adequate to do this.
- Many policies ask for a specific note of the sums insured for computers and other high value or theft attractive equipment. Your inventory should help in establishing this.
- Advise your broker of any items that need to be covered 'away from the premises' as this would need to be specifically arranged.

Business Interruption

A Care Operators Sum Insured for Business Interruption is based on the projected annual revenue, multiplied by the **indemnity period**.

- Ensure the revenue figure is carefully considered to take into account *projections for growth* during the indemnity period.
- The **indemnity period** is the period for which insurers would continue to pay for any reduction/loss of revenue following the material damage claim. It's essential you consider how long it could take your business to fully recover following a loss (you can select period from 12 months to 36 months, 12 months would rarely be sufficient). Consider the period of time from the day of an initial loss to the point your business is fully operational again. Imagine waiting for architects plans, local authority applications and approval, the rebuilding and refitting of the property followed by the process of refilling your home with new service users. The policy will continue to respond to your loss of income until you are back into the position you were in before the loss, as long as the indemnity period is sufficient.

We recommend considering the above very carefully and seeking professional advice where required. Your account handler can provide further signposting and talk through any specialist covers you may have overlooked.

T +44 (0)20 7623 3806 F +44 (0)20 7623 3807 E info@howdengroup.com

www.howdengroup.co.uk

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