



THE DANGERS OF BEING UNDERINSURED

Many businesses, regardless of industry, are risking their own survival by unwittingly remaining underinsured. A disastrous event can strike a business at any moment, leaving it vulnerable.



TAF AND MILES SMITH SUPPORTING YOUR ASSOCIATION AND YOUR MEMBERS



THE DANGERS OF BEING UNDERINSURED

MANY BUSINESSES, REGARDLESS OF INDUSTRY, ARE RISKING THEIR OWN SURVIVAL BY UNWITTINGLY REMAINING UNDERINSURED. A DISASTROUS EVENT CAN STRIKE A BUSINESS AT ANY MOMENT, LEAVING IT VULNERABLE.

Many small and medium-sized businesses in the UK are underinsured due to a lack of business interruption (BI) insurance or because they did not know whether this type of cover was included in their business insurance policy.

You may only find out that your business is underinsured when you experience a major loss event, such as a data breach, flood or fire, and need to make a claim. Be proactive and understand the details of your cover now so you can fix that gap and be prepared for anything.

WHAT DOES IT MEAN TO BE UNDERINSURED?

If your business is underinsured, it means that you have insurance policies but your assets are valued and insured at less than their true value, leaving your business inadequately protected. Therefore, in the event of a disaster, you

would be compensated for less than the true value of your assets. A shortfall in your insurance payout could ruin your business.

Businesses can be underinsured for many reasons. Often it is because the owner thinks that a major loss event will never happen to them, so they do not need comprehensive protection. But inclement weather, a cyber-security hack or a destructive fire can impact and destroy any kind of business.

The owners may fail to review their cover and leave sums insured and estimates untouched for years, despite major changes at their business.

These changes can include employing additional staff members, purchasing new equipment or improvements made to the business premises.

Because buildings and content are typically insured for their reinstatement value (how much it costs to rebuild),

neglecting to habitually update your sum insured could mean you are only insured for the initial market value (the price of the property when you bought it). Thus, you would only be partially covered by your policy for rebuilding costs in the event of a partial or total loss.

Sometimes business owners choose to underestimate building costs and remain underinsured simply because they want to save money on their insurance premiums. But the short-term savings can never compensate for the out-of-pocket payments required to complement your insurance payout in the event of an insured disaster.

There are many different reasons businesses find themselves with inadequate insurance cover but the most important thing is to recognise when your business is underinsured, to understand the attendant risks and to take action that increases your cover.

Many businesses risk their own survival by unwittingly remaining underinsured. Follow these tips to ensure your business has the proper cover to defend against disaster

WHAT IS THE DANGER OF BEING UNDERINSURED?



Being underinsured can threaten a business's entire survival. A single loss event can be disastrous if a business is underinsured and results in an insurance payout that is insufficient to return the business to its pre-loss position.

But an insufficient sum Insured is not your only threat - an inadequate indemnity period may cause insurance payments to stop before a business fully recovers after a loss. This could leave your business half-recovered and stagnant once the indemnity period on your insurance policy expires. The same applies to undervaluing your business's revenue - if you choose a sum Insured that does not accurately reflect your business's revenue, you could receive only a fraction of your losses under a business interruption policy.

Insurers can even void cover on the grounds of misrepresentation or non-disclosure if such as providing figures are provided that incorrectly value the property or underrepresent the business's revenue.

Being underinsured leaves your business vulnerable to financial ruin.

With weak, inadequate insurance cover, your business may need to close for an extended period of time, or even forever, the insurance payment is insufficient to cover the total cost of returning to business.

WHICH POLICIES ARE MOST OFTEN UNDERINSURED?

Any commercial policy can be underinsured, but insurers report that the following are the most commonly underinsured policies:

- **Buildings** - Business owners often only consider the market value of a building and ignore the actual cost of rebuilding. Failure to regularly reassess the value of your property and adjust your policy accordingly could lead to your business being underinsured and consequently unprepared for even the smallest losses
- **Machinery and plant** - A frequently updated list of all machinery and plant is the best way to ensure that it will all be covered when making a claim. Reflect any changes in your machinery and plant by adjusting your sum insured

- **Business interruption** - The inability to maintain business operations in the wake of a crisis can be devastating. Possessing a current continuity plan and receiving the correct insurance payout to cover it are essential
- **Cyber liability** - Data breaches are an increasing threat to businesses of any size. Improving your cyber security and developing an action plan are now necessary business practises to offset the potentially huge losses of a data breach

HOW CAN YOU AVOID BEING UNDERINSURED?

The following measures can help prevent your business from being underinsured:

- Always seek the advice from an insurance broker like Miles Smith
- Provide the cost of rebuilding the property (including the costs of demolition, materials and professional fees) to your insurer rather than the market value or the amount you purchased it for
- Calculate and use your actual total revenue
- Conduct regular, accurate valuations of your business and property
- Determine an appropriate indemnity period that allows your business enough time to recover
- Review your policy wording to ensure you have the broadest cover possible
- Increase your sum insured to reflect inflation

COMPLETE YOUR COVER

Your business is your lifeblood. You should do everything you can to protect it by properly insuring it against every possible eventuality.

To find out more about how working with Miles Smith can benefit your organisation, please email Ian Cook (Sales & Development Director) icook@miles-smith.co.uk at Miles Smith or call him on 020 7977 4800.

Provided by Miles Smith Insurance Group

THIS DOCUMENT IS FOR INFORMATIONAL PURPOSES ONLY.

© 2015 ZYWAVE, INC. ALL RIGHTS RESERVED
© 2019 MILES SMITH LIMITED

MILES SMITH LIMITED IS REGISTERED IN ENGLAND. REGISTERED OFFICE: 6TH FLOOR, ONE AMERICA SQUARE, 17 CROSSWALL, LONDON, EC3N 2LB COMPANY NO. 00951095
MILES SMITH LIMITED IS AUTHORISED AND REGULATED BY THE FINANCIAL CONDUCT AUTHORITY FCA NO. 311273