

INSURANCE COVER: UNDERINSURANCE:

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OVERVIEW:

We have all heard of it but what does it mean and how can it affect your business.

Almost all insurance policies have what is known as an “average” clause, this applies to both your home insurance as well as your business.

For many, the misconception is that if you insure for a certain amount say £100,000, in the event of a loss the insurer will just hand you a cheque for this amount, this could not be further from fact, unfortunately it does not work like this.

A very simple explanation, for this scenario we will use your home buildings insurance which most should be able to relate to.

SCENARIO:

You insure your home for £200,000, your roof is badly damaged in a storm, having obtained several quotes for the repair, the cost is £5,000.

The insurer appoints a loss adjuster to deal with the claim but there is a problem. It is found that the rebuild cost for the property should be £400,000 and it should have been insured to this amount.

The property has only been insured for half its correct rebuild cost meaning the insurer will only pay half of the amount to the cost of repair less excesses, in this case half under insured means that the insurer will only be paying £2500, less excess.

HOW TO AVOID BEING UNDERINSURED:

Buildings Insurance: a professional valuation is essential to determine the reinstatement or rebuild cost of the building.

This should be carried out by a suitably qualified RICS or equivalent surveyor.

A survey should calculate the rebuild cost and take into account architects and surveyors fees, demolition costs the expected length of time to rebuild, including car parks and associated land.

CONTENTS INSURANCE, MACHINERY, PLANT, FIXTURES, FITTINGS - THIS IS A VAST SUBJECT AND CAN BE COMPLEX AND TIME CONSUMING:

The basis on which the correct sum insured should be reached is very similar to buildings.

To avoid underinsurance it is essential that you consider the replacement cost of the item.

Unlike your accountant who will add in depreciation, insurance is the opposite, you must provide a figure that adequately reflects the replacement as if it was new to carry out the same function but without betterment.

If the machine is 15 years old: you must ensure that prices reflect a similar or direct replacement (as new) model with the same features and as near to the existing one.

Discounted prices: even if you have just bought the machine it is essential that it is covered for the manufacturers full price. Using “special offer prices” can lower your sums insured, however what might be a special offer today, may be standard price tomorrow.

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Connecting them: in the case of machinery, don't forget the cost to replace such items as 3 Phase cabling.

Avoid guessing - it is easy to make mistakes without the right guidance!

Whilst desks and chairs, cabinets and tables can be obtained very cheaply, a loss adjuster will consider the full as new replacement cost.

Whilst contents can easily be forgotten about, keep a full inventory, including updated replacement costs, this should preferably be kept off the business premises.

CONCLUSION:

It is essential that your **Buildings Sum Insured** is professionally and correctly assessed, for your Contents everything must be considered, do not be tempted to ignore items that you think you would not claim for.

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This fact sheet is part of the BSGA's BUSINESS ESSENTIALS Series, developed with contributions from our members to help strengthen best practice, compliance and support our industry and the wider stakeholder community.

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