# Underinsurance explained

– what it means to your business

AVIVA

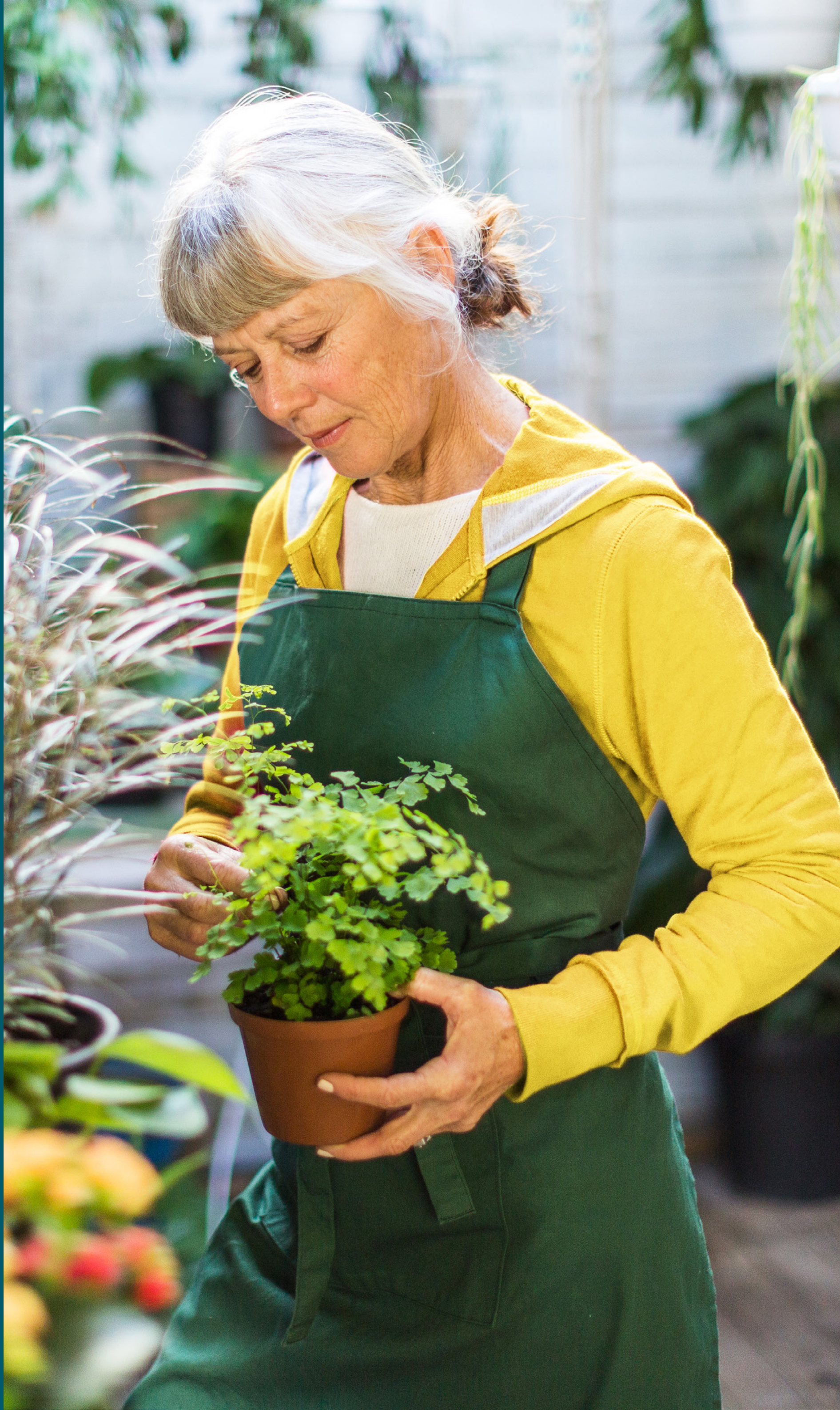
# What is **underinsurance?**

Underinsurance occurs when you don't have enough insurance cover to meet your needs. So, if the declared values of property and assets aren't correct, or when the time it would take to get your business back up and running after a loss is underestimated, **you could be underinsured**.

Unfortunately, the unexpected can happen and you may need to make a claim.

If you do, the last thing you want to hear is that the level of insurance cover you have won't cover your costs.

**But that's what could happen if you're underinsured.**



# How could I be underinsured?

## Incorrect Sum Insured limit

It's not nice to think of, but if you were to suffer a large loss tomorrow, how much would it cost to completely rebuild and reinstate your business?

This is what your Sum Insured limit covers. And it's not just the bricks and mortar. This covers the cost of replacing key components including plant machinery and equipment.

## Inadequate Business Interruption (BI)

If you've thought about the cost of rebuilding and reinstating your business, how long do you think it would take to get all of that building work agreed and completed, and your equipment ordered and installed? Not to mention the time it will take to build back your customer base to previous levels.

This is where your business interruption period comes into play.

If your BI limit isn't adequate, you may not be able to cover the full estimated loss of earnings during a period of reinstatement, leaving you financially vulnerable.

## Not reviewing these limits regularly

If you haven't had an independent professional valuation done in the last 12 months, we'd highly recommend you do so. It can be difficult to understand exactly how much cover you need at the best of times, but right now, it's trickier than ever – inflation, increased cost of building materials, supply chain disruption and a shortage of skilled workers are all causing the cost of getting back to business to go up.

### What about indexation?

If the initial Sum Insured is too low, the indexation applied to your policy in line with inflation may have little to no impact. What's more, inflation indexation alone won't account for costly delays or increases in other costing factors.

# How big is the problem?

## What we know

We estimate **42% of SMEs** who insure buildings with Aviva are underinsured[1]

Despite this, **91% of SMEs** are confident they have the right level of cover in place[2]

Even though **19% of businesses** haven't reviewed their indemnity period in the last 2 years[2]

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And **10% of SMEs** could not operate if they had to pay up to £10k due to underinsurance[2]

## What our Specialist Partners are saying

**Barrett Corp & Harrington**

Found **77% of properties** were underinsured.[3]

**Sedgwick**

Report underinsurance in **85% of commercial properties** were underinsured.[4]

**Cardinus**

Found **80% of properties** surveyed were **underinsured by more than £750,000**.[5]

**Charterfields**

Report **42% of plant and machinery locations** they surveyed were **underinsured by more than half their value**.[6]

*please find references on page 13

# What happens when you're underinsured?

A distribution company owns a series of warehouses and offices.

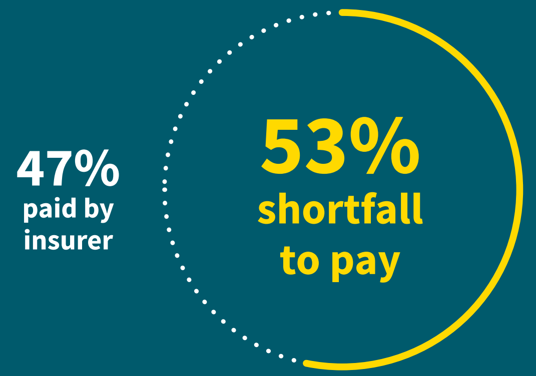
After a valuation, their broker recommends their Sum Insured limit is increased to cover a total of **£4,451,000**.

Before the valuation, they were only insured to the sum of **£2,100,000**. That's only **47%** of the recommended amount.

If they were to make a claim without adjusting their cover, **their insurer would only pay 47%** of the loss amount, no matter how big or small.

This would lead to **substantial shortfalls** when they need to make up the remaining **53%** themselves.

| Claim for losses: | Amount paid by insurer (47%): | Shortfall to pay (53%): |
|---|---|---|
| £5,000 | £2,350 | **£2,650** |
| £50,000 | £23,500 | **£26,500** |
| £500,000 | £235,000 | **£265,000** |




## Did you know...

**10% of SMEs** – that's more than half a million UK businesses – believe they **wouldn't survive if they had to pay up to £10,000 towards a claim that wasn't fully covered by insurance**[7].

*please find references on page 13

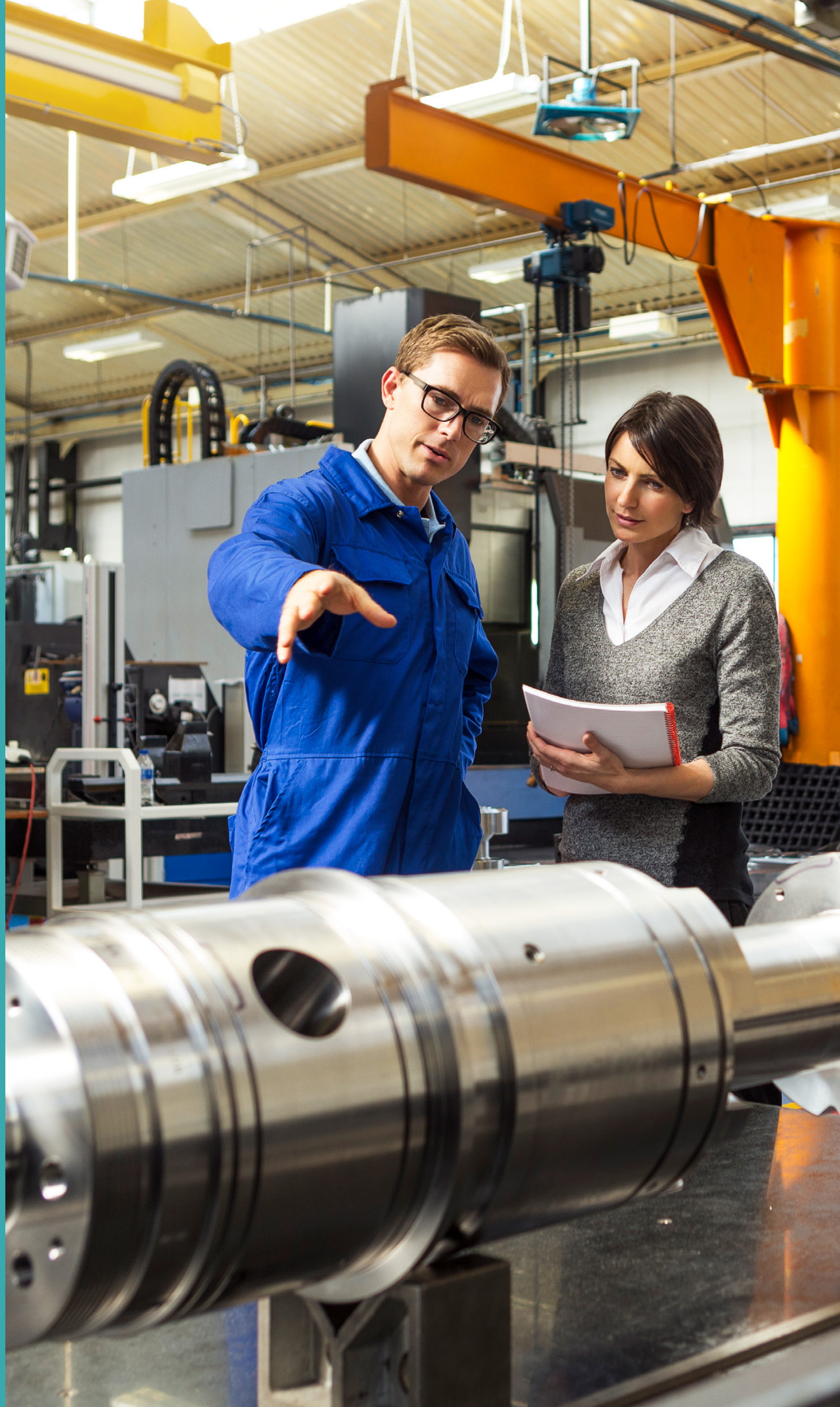
## Why won’t an insurer always cover the full loss?

Any claim will only be paid based on the amount of cover chosen. This is called the ‘average clause’.

%

**The ‘average clause’ explained:**
Any claim you need to make – however big or small – will be impacted by the percentage difference between your recommended total sum and the actual sum for which you’re insured.

You should carefully consider the percentage difference between the recommended cover limits and the amount you choose to cover, rather than simply focusing on the total amounts.



# What are the consequences?

When you're considering what being underinsured could mean for your business, think about the wider impacts, not just the shortfall you might have to pay.

- Production delays
- Employee wellbeing issues
- Cash flow problems
- Loss of revenue
- Supply chain problems
- Impact on share price
- Loss of key employees
- Disappointed customers
- Reputational damage

# How long will it take to get back to normal?

We call this the '**period of indemnity**'. Making sure you have calculated this correctly **protects your income and cash flow** if anything impacts normal operations. It can often take longer than you think to bounce back.

For instance, if a business needed to rebuild a warehouse after a fire, attaining planning permission could delay work for months.

If just one piece of specialist equipment breaks down, it could mean they can't run properly until a replacement can be sourced.

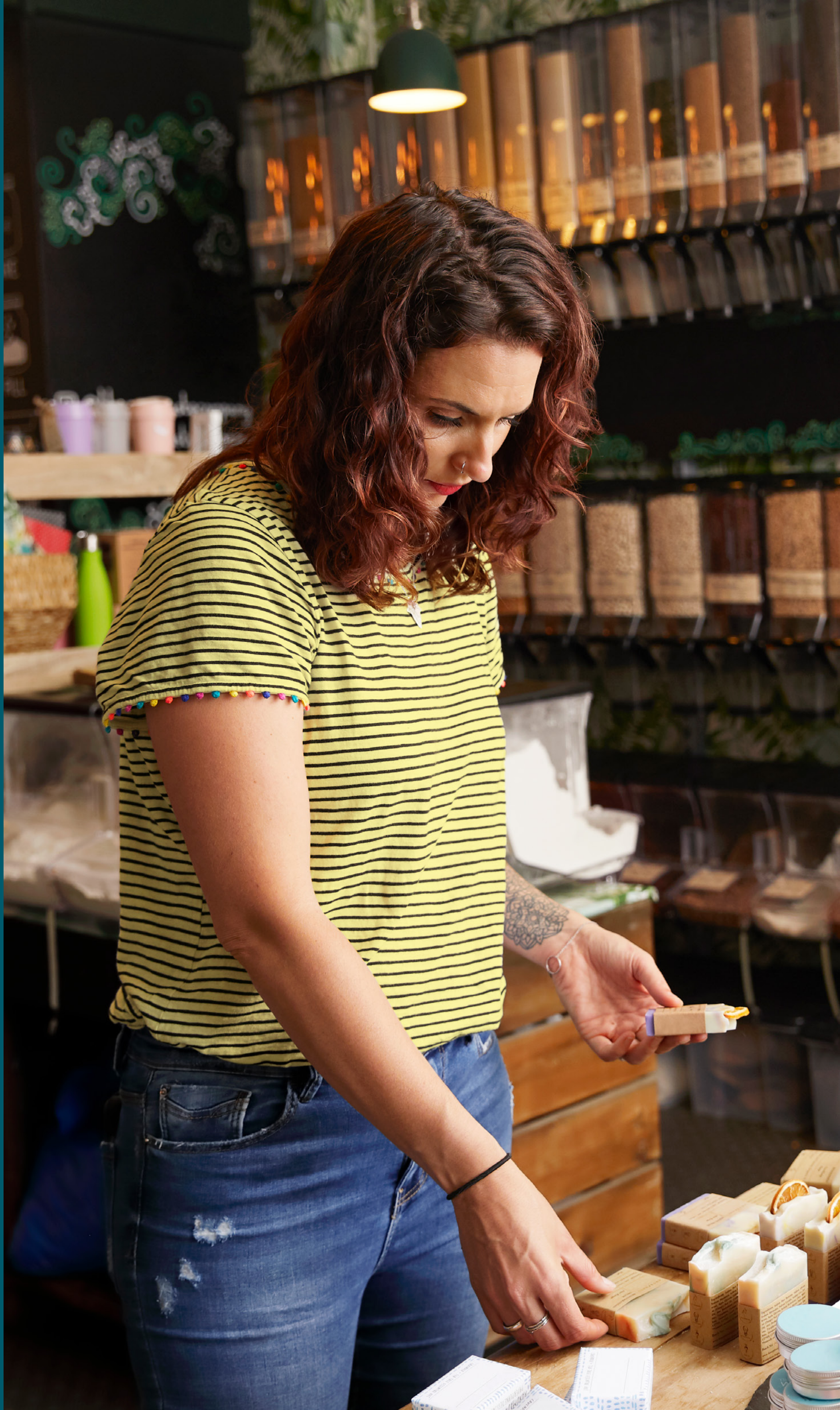
# The average claim lifecycle

A recent analysis of large claims (over £100,000) settled by Aviva between 2018 and 2021 found that **the average lifecycle to close a claim was 385 days.**

However, on average, SMEs said it would take **just under six months** for their business to be able to return to normal operations following a major loss, such as a fire or flood.[8]

**If you're not sure what your period of indemnity should be, speak to your broker.**

*please find references on page 13



# How do you know if you're underinsured?

### Get a professional valuation

Working out how much accidents, and other business interruptions, could set you back can be complex. But having to pay more than you bargained for – or waiting longer than you thought to get back up and running – could leave your business struggling.

**An expert valuation can help you get a true idea of the total value of your assets,** so you can choose an appropriate level of cover.

### Have regular catch-ups with your broker

It can also be difficult to stay on top of the market conditions that could affect your insurance policy – such as labour shortages, rising material costs, or wider supply chain issues. **Regular catch ups with your broker can help you understand how much cover you need.**

It's also important to tell them about changes you've made. Things like new plant and machinery, property alterations and inflated stock levels can impact the level of cover required.

# Finding the additional support you need

### Loss Prevention Standard: Business Continuity

Unexpected interruption to your business can be caused by a range of events. Organisations that recover successfully will already have a detailed Business Continuity Plan and recovery procedures in place.

Download guide

### Business Interruption: Rebuilding Period and Rebuilding Valuation

Factors that should be taken into account when deciding the likely rebuilding period and value for a property.

Download guide

### Business Resilience

Support and guidance to help develop a comprehensive business resilience strategy.

Visit Aviva Risk Solutions

# Finding the additional support you need

**Aviva's Specialist Partners**

Aviva Risk Management Solutions offers access to a wide range of risk management products and services at preferential rates via a network of Specialist Partners.

### Barrett Corp & Harrington (BCH)

Building reinstatement cost assessments – including site visit, e-Valuation and reporting.

Find out more

### Cardinus

On-site and desktop Reinstatement Cost Assessments of buildings, Fire Risk Assessments, Health and Safety Assessments and consultancy.

Find out more

### Charterfields

Insurance cost assessment to thoroughly understand and report values for any type of asset category including plant, machinery and contents.

Find out more

### Sedgwick

Building reinstatement cost assessments including site visit and reporting.

Find out more

Sources:

[1]Based on Aviva's modelled data on SME customers with buildings insurance, September 2022.

[2]Figures relate to a survey of 502 micro, small and medium sized business, carried out by YouGov on behalf of Aviva in September 2022.

[3]Based on survey data from Barrett Corp & Harrington (BCH) across commercial and residential properties. 4,813 surveys conducted between Jan – July 2022.

[4]Based on survey data from Sedgwick across commercial properties for the period January 2021 to July 2022.

[5]Based on aggregated data from on-site reinstatement cost assessments conducted in the UK in 2021 where existing declared values were known by Cardinus.

[6]Based on assessment data from Charterfields. Aggregated data based on UK assessments over the last 7 years, where existing declared values were known by Charterfields.

[7]1 in 10 SMEs said they wouldn't survive if they had to pay more than £10,000 towards a claim in a survey of 502 micro, small and medium sized business, carried out by YouGov on behalf of Aviva in September 2022. This would correlate to more than 500,000 businesses based on Business population estimates for the UK and regions 2021: statistical release (www.gov.uk).

[8]Figures relate to a survey of 502 micro, small and medium sized business, carried out by YouGov on behalf of Aviva in September 2022.

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