



# Underinsurance explained

– what it means to your business

# 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.

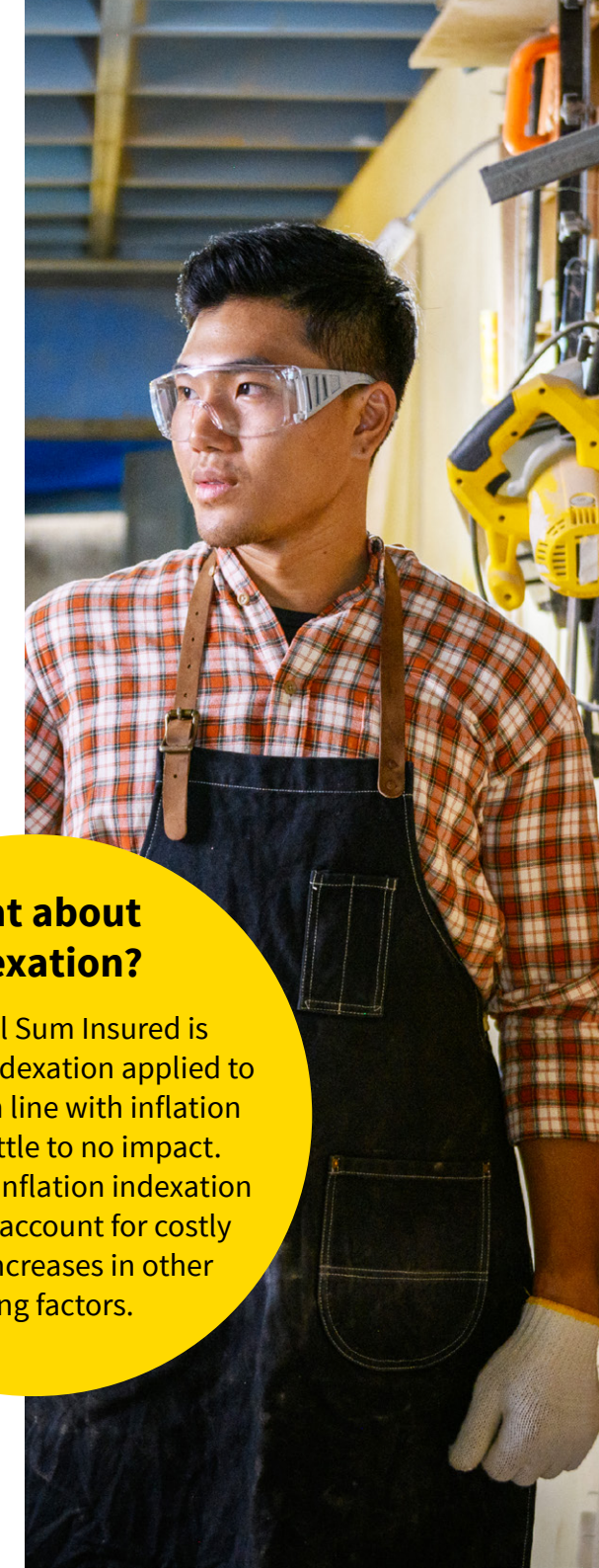
If your BI limit isn't adequate, you may not be able to cover the full estimated loss of earnings during a period of reinstatement, leaving you financially vulnerable.

## 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 could I be underinsured?

## Underinsurance in liability insurance

Liability policies are intended to pay the costs of defending a claim against your business, together with any settlement or damages award. Very few businesses have the financial means to defend a liability claim without sufficient insurance cover in place, and if the limit of indemnity under the policy purchased is exhausted then your business assets might be at risk.

For employers' liability it is required by UK law that you carry a minimum of £5,000,000 of cover, but the market standard is £10,000,000.

On public and products liability, limits typically start from £1,000,000 or £2,000,000 depending on the activity, with the majority of businesses buying £5,000,000 or £10,000,000. While this may seem more than sufficient, depending on the individual risks within your business you may need to buy more cover.

Discussing the adequacy of your limits of indemnity under your liability policies with your broker is critical to ensure you have the protection you need as a business in the event of injury to a member of staff or the public, or third-party property damage caused by your business activities. It's also important that you regularly review any wages/turnover figures declared to ensure that you have made a fair presentation of the risk in line with the Insurance Act 2015.

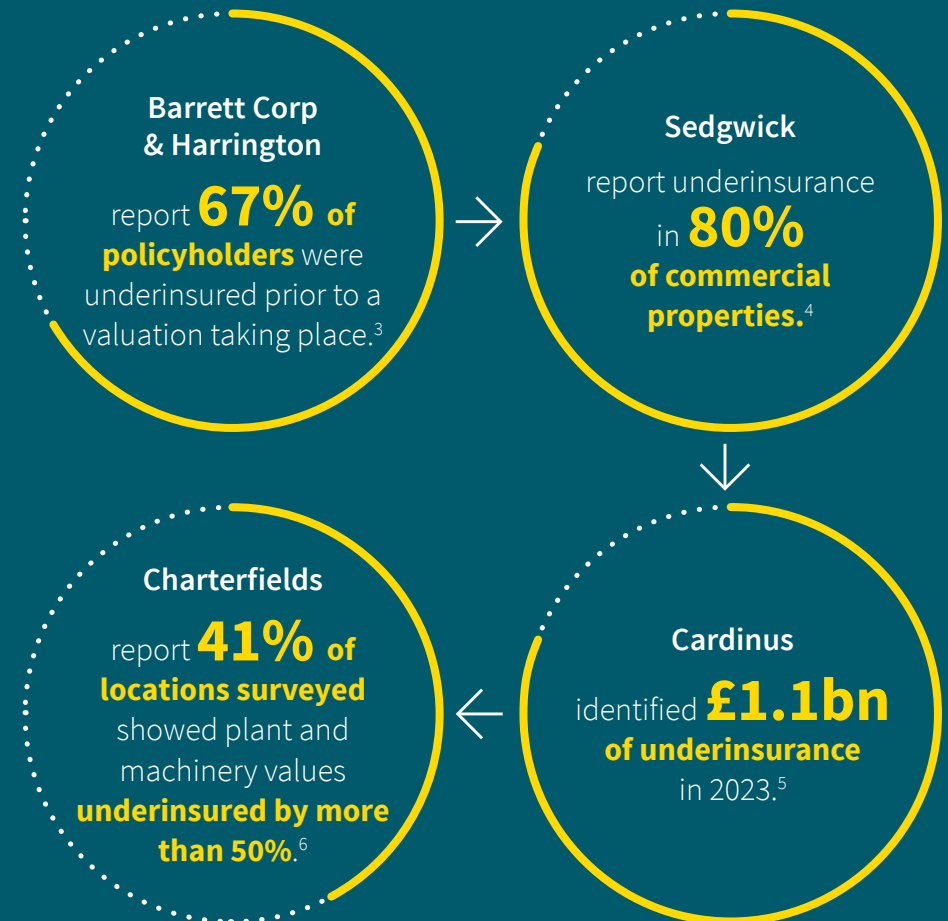


# How big is the **problem?**

## What we know

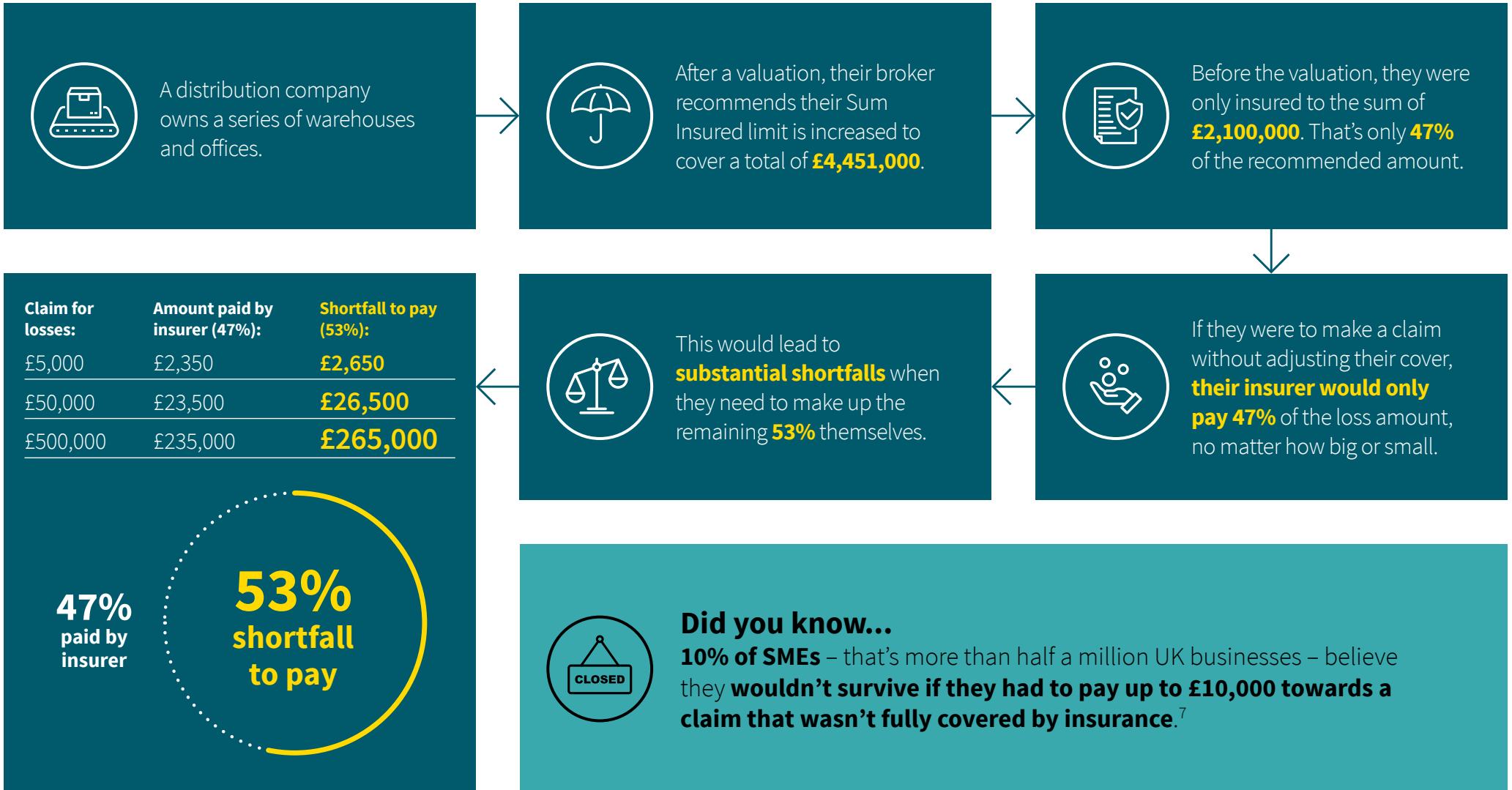


## What our Specialist Partners are saying



\*Please find references on page 14

# What happens when you're underinsured?



\*Please find references on page 14

## 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



Cashflow problems



Loss of revenue



Supply chain problems



Impact on share price



Loss of key employees



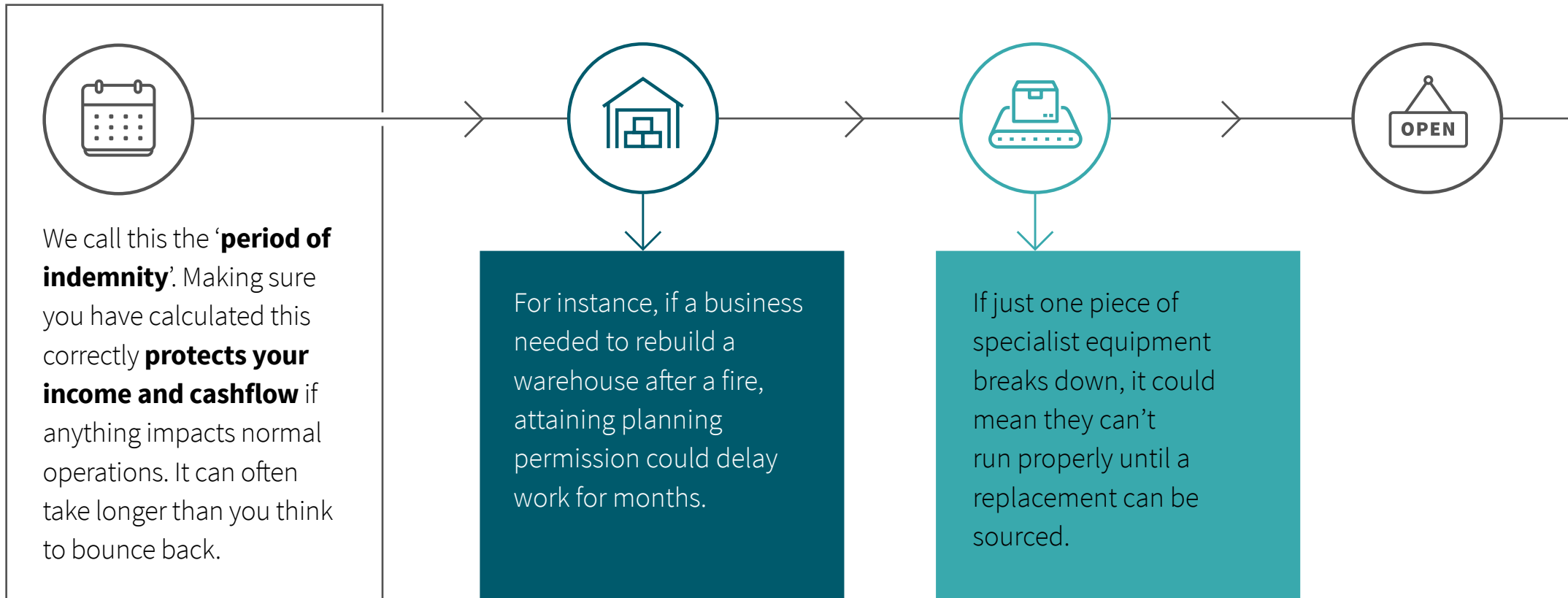
Disappointed customers



Reputational damage



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



# 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.<sup>8</sup>

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

\*Please find references on page 14



# 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 desktops, site visits and reporting.

[Find out more](#)

Sources:

<sup>1</sup>Based on Aviva's modelled data on SME customers with buildings insurance, December 2023.

<sup>2</sup>Figures relate to a survey of 502 micro, small and medium-sized businesses, carried out by YouGov on behalf of Aviva in September 2022.

<sup>3</sup>Based on survey data from Barrett Corp & Harrington across commercial and residential properties between Jan-Dec 2023.

<sup>4</sup>Based on survey data from Sedgwick across commercial properties for the period January to December 2023 inclusive.

<sup>5</sup>Based on aggregated data from 480 on-site reinstatement assessments in 2023 from insurance partner introductions.

<sup>6</sup>Data from Charterfields Underinsurance Report 2024, using data from analysed locations where Charterfields have conducted a comprehensive reinstatement cost assessment.

<sup>7</sup>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 businesses, 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](http://www.gov.uk)).

<sup>8</sup>Figures relate to a survey of 502 micro, small and medium-sized businesses, carried out by YouGov on behalf of Aviva in September 2022.

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