

Underinsurance claims scenario: **Business Interruption**

No one wants to hear that their insurance won't be enough to cover a claim. If a Business Interruption limit isn't adequate, a business may not be able to cover the full estimated loss of earnings during a period of reinstatement.

Restaurant



Background

A restaurant has held a policy with Aviva for the past five years. During that period the restaurant's revenue had doubled, but its Business Interruption (BI) cover remained the same because the business had not reassessed its cover at each renewal.



Incident

An escape of water from a mains sewer pipe caused water to pour into the restaurant, causing severe damage. The restaurant was required to close and make a claim that included a BI loss.



Outcome

The policy was placed with £250,000 of BI cover, reflective of the business performance at the time. Financial records showed that the business was, at the time of the loss, receiving an annual revenue of £500,000. The restaurant was therefore underinsured, and only 50% of the BI losses suffered as a result of the water incident were covered. The remainder of the losses needed to be met by the restaurant.



Key takeaways



Recovery takes time

Recovery time after a loss is often underestimated. SMEs estimate, on average, that 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. However, a recent analysis of large claims found that the average lifecycle to close a claim was 502 days.¹



Rebuilt isn't the same as recovered

Many business owners think that once they're physically back in shape, their worries are over. But the loss of customers following an incident can also impact recovery.

What can you do to help?



Expert support

Your broker can work with you, and Aviva's expert underwriters, to help understand and recommend suitable levels and periods of indemnity for your business.



Regular risk assessments

Annual property and asset reviews are a crucial part of effective risk management, especially during periods of high inflation, supply chain issues and labour shortages.

¹Based on analysis of large claims (more than £100,000) that were settled by Aviva during Q4 2025 (excluding Subsidence, follow co-insurance, International and covid claims).

The scenario shown in this document is fictitious and has been used for illustrative purposes only.

Underinsurance claims scenario: **Building Sum Insured**

Too often, clients request insurance cover based on outdated rebuild valuations, the market value of their building or, in some instances, guesswork. What should be considered is what it would cost to rebuild the property, which may end up being greater than the current market value.

Holiday cottages



Background

A property owner rents out holiday cottages within the UK. Their Sum Insured for each holiday cottage was based upon rebuild valuations obtained five years ago. But, over that period, global events had caused material and labour costs to increase substantially.



Incident

A fire spread from a neighbouring property and caused catastrophic damage to one of the property owner's holiday cottages. The extent of the damage was such that the property was a total loss, requiring demolition and a complete rebuild.



Outcome

The policy rebuild valuation of £400,000 was five years old. A value-at-risk assessment calculated the true rebuild value to be £750,000 due to the rise in material and labour costs, leaving the property owner underinsured by 47%. Unable to meet this £350,000 cost, a cash settlement was agreed and the insured lost this property as a source of income.



Key takeaways



Underinsurance is a false economy

Being underinsured can put your business at risk. If you need to make a claim and your level of cover isn't adequate, it may mean you won't get the sum needed to recover after a loss.



A reinstatement cost assessment is essential

An expert survey can provide a rebuild figure that includes the total current cost to rebuild the property.

What can you do to help?



Expert support

Your broker can work with you, and Aviva's expert underwriters, to help understand and recommend suitable levels and periods of indemnity for your business.



Enlist a qualified valuation expert

Our Specialist Partner network can provide businesses with thorough and up-to-date reinstatement cost assessments, available at preferential rates to Aviva policyholders. These help to give you confidence that you've got the right level of cover to suit your business.

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Underinsurance claims scenario: **Underinsured stock**

When considering your cover, it's important to make sure your Sum Insured is accurate and up to date, taking into account seasonal ups and downs of a business and how changing circumstances can impact insurance needs. Policies should be reviewed regularly, especially during times of change or significant growth, to avoid a nasty shock if a claim is made.

Garden centre



Background

A garden centre arranged insurance cover to include theft of stock. The Sum Insured was based upon normal stock levels throughout the year, not taking into account the seasonality of the business. With increased demand over the Christmas period, the garden centre was required to store a 40% higher level of stock. This situation is similar year-on-year.



Incident

Given the increased stock stored within the garden centre in the run-up to Christmas, it became a target for thieves. They broke in, taking advantage of the heightened stock levels.



Outcome

Because the stock value at the time of the theft was significantly higher than the Sum Insured, the claim was settled on a proportionate basis, covering 71% of the stock value. Not having sufficient funds available to make up the 29% shortfall, the garden centre could not fully restock, impacting their Christmas trade levels.



Key takeaways



Underinsurance is a false economy

Being underinsured can put your business at risk. If you need to make a claim and your level of cover isn't adequate, it may mean you won't get the sum needed to recover after a loss.



Changing circumstances demand changes in cover

Whether diversifying, downsizing, expanding or adapting business models, these shifts will inevitably impact insurance needs.

What can you do to help?



Expert support

Your broker can work with you, and Aviva's expert underwriters, to help understand and recommend suitable levels and periods of indemnity for your business.



Regular dialogue

If the business had notified their broker that they were carrying more stock than anticipated when the policy was taken out, the cover could have been amended to suit the business's changing requirements.

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Underinsurance claims scenario: **Public Liability Insurance**

Accidents can happen at any time but as a business owner it's important to make sure you're covered should an accident happen with the general public whilst on your premises. Claims for injuries can quickly add up and if a Public Liability limit isn't adequate, a business may not be able to cover the full claim.

Coffee shop



Background

A coffee shop purchased Public Liability insurance to protect against injury to third parties and damage to third-party property occurring on its premises. Given the seemingly low-risk nature of its operations, the business selected a £2 million limit of indemnity.



Incident

During a busy period, a cup of coffee was accidentally knocked over, spilling onto the shop floor. Before staff had the opportunity to clean the area, a customer slipped on the spillage and sustained a severe traumatic brain injury, along with long-term mobility impairment. The individual also suffered multiple fractures and cognitive impairment, including a significant loss of executive function.



Outcome

The claim was valued at £5.5 million, with a substantial portion attributed to the claimant's lifelong care requirements. Ongoing physiotherapy and support were needed due to the claimant's mobility limitations. Because the shop's Public Liability policy provided only £2 million of indemnity and defence costs were payable in addition the remaining £3.5 million fell underinsured. The claimant therefore pursued the business owners personally for the outstanding balance.



Key takeaways



Underinsurance is a false economy

Being underinsured can put your business at risk. If you need to make a claim and your level of cover isn't adequate, it may mean you won't get the sum needed to recover.



Consider every scenario

It's important to consider things like footfall at the premises and claims that could involve multiple people, as well as the potential cost of a serious injury claim. The example highlights how costly a life changing injury could be and many factors could see it quickly exceed its Public Liability limit.

What can you do to help?



Expert support

Your broker can work with you, and Aviva's expert underwriters, to help understand and recommend suitable levels public liability cover for your business.

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