

# Ensuring Your Business Isn't Underinsured

Underinsurance - Material Damage - Property Insurance



It is estimated that approximately **80%** of UK commercial properties are underinsured.

Following events such as a fire, SMEs often rely on insurance payouts to stay afloat. If a business is underinsured, the consequences may only become apparent at the point of claim.

## Increased Building Costs

Building costs have continued to rise in the last 5 years, due to:

- **Labour** - there is a shortage of skilled workers, pushing wages up.
- **Materials** - due to supply chain issues, geopolitical factors, and increased manufacturing costs prices remain high.
- **Taxes & Policies** - increased taxes have added to employer costs.

The continuing rise of building costs means that there is a risk of being underinsured.

## Buildings Sum Insured

Included within the buildings sum insured is the reinstatement cost of the building itself, any costs for demolition, removal of debris, local authority and professional fees such as architects.

## What is the average condition?

Material damage policies are subject to the Average Condition, which means that if the reinstatement value of the property at the time of the damage is greater than the sum insured, you will be considered as being your own insurer for the difference.

For example, if you insure the property for £1,000,000, but the actual cost to reinstate the property is £2,000,000 you have only been paying for half of the cover you need. Any claim would then be paid in proportion and subject of any excess.

Sum Insured	Actual Reinstatement Cost	Underinsured Amount
£1,000,000	£2,000,000	50%

Claimed	Amount Payable	Shortfall Amount
£500,000	50% of the amount claimed less any excess	£250,000 (plus any excess). This would be met by yourself

The consequences of underinsurance for SMEs often only become clear at the point of claim. This can be catastrophic: a reduced payout may leave businesses to cover significant additional costs themselves, which many cannot afford, forcing some to close permanently - an outcome we are all trying to avoid.

## What we are doing at NBS to help

We aim to support businesses by helping prevent underinsurance and the application of average wherever possible.

We understand the challenges you face - particularly in the current climate - when calculating accurate sums insured. That's why we include a buffer to reflect current market conditions.

NBS policies now include one of these special provisions:

- **The reinstatement basis of settlement clause:** If the declared value/sum insured is less than 85% of the reinstatement value, the amount payable will be proportionately reduced meaning average will only apply if the declared value is less than 85% of the reinstatement value

OR

- **Day one:** Providing that, at inception of each period of insurance, the declared value of the property is supplied, NBS will cover up to 115% of that value

*Please note, if the declared value at the start date was inadequate average will still apply.*

Whilst we can provide some protection against rising costs, we recommend that if you are unsure of the true value of your property, you arrange a revaluation to be undertaken by a professional.

For more information and guidance please contact your broker.