



# When less is definitely NOT more

Under insurance investigation for SME's is so serious that experts estimate as many as 35% are not insured for the full value. SMEs are self-insuring without realising it.

Professional brokers have a responsibility to provide clients with the practical guidance needed. Reviewing the adequacy of the sums insured is an essential part of the service we provide. When asked for updated values for property and loss of income, SMEs will often compare their current position to last year. This can result in no change in the sums insured year after year. An unlikely outcome when you consider the effect of inflation and changes in the business! Material values increase as do labour costs. Consider how long the policy has run and think about the progressive increase in value on a "New for Old" basis.

## **The Average clause – cutting the client's claims payment**

When insuring assets, like a building, clients must tell the Insurer the current reinstatement (re-build) value which then forms the policy sum insured.

The Premium is based on this declared sum insured. If clients get this insurance value wrong and it is lower than the real value at risk, the premium will be lower than the one that should have been paid to cover the property at risk.

It would not be fair on the insurer and their other policyholders if under insured clients received a full insurance payment, bearing in mind if they have only paid a part of the whole premium due. To protect Insurers in this scenario, the policy contains an Average clause, cutting the claims payment in the same % as the level of premium paid compared to the correct premium.

The Average clause in an insurance policy requires the Insured to bear a proportion of any loss if the sums insured are less than their full replacement value. If a client declares an insured value that is X% of the true value, they will have only paid X% of the premium due and will only receive X% of their claim.



*are you covered?*

### **Buildings check list**

The sum insured must be adequate to pay for the reinstatement cost of the buildings including debris removal, architects' fees and any Community Infrastructure Levy (CIL payment due to the local council).

- ✓ Establish when the building was last revalued for rebuilding costs. This should be professionally reviewed a minimum of every 3 years
- ✓ Index linking only covers the adequacy of the buildings sums insured if the original base figure was correctly assessed in the first place and there have been no changes in the interim.
- ✓ Have there been any extensions, improvements or air conditioning installed?
- ✓ ALWAYS review the adequacy of sums insured. Don't use the current sum insured without first clarifying it's adequacy.
- ✓ By checking sum insured adequacy we can help make a massive difference in the event of a claim. The Average condition could result in a £100,000 claim being cut by £35,000 if underinsured by 35%.

### **Contents & Stock check list**

Contents: It is important to understand that sums insured must represent Replacement As New. Most policies ignore depreciation and pay for new contents to replace those that have been lost or damaged.

Stock:

- ✓ The sum insured should represent the amount that it would cost to purchase at replacement value. The value of the same item could vary enormously dependent upon where the client is in the chain. For example, a manufacturer would have a combination stock comprising raw materials from which to make an item, various goods as work in progress and then a stock of finished items
- ✓ Client Goods - consider also any stock that would have been sold to customers and still held on the premises and therefore their responsibility. Stock should include goods in the client's care, custody or control.