

How the effects of Brexit could leave you underinsured. And how to sidestep it

There is 'an alarming degree of underinsurance' by UK businesses and individuals. So says a recent report from the Financial Conduct Authority. This stark conclusion is supported by other reputable surveys that show, for example, nearly four out of five premises are underinsured and around two-thirds of all plant and equipment is underinsured to the point where it will significantly reduce any claim payment.

The key to avoiding underinsurance is having accurate sums insured on your policy.

It's here that the consequences of Brexit come into play. The Brexit stealth effect on sums insured can be dramatic, silently easing you into underinsurance. The substantial fall in the value of the pound against both the dollar and the euro means that if replacement materials, equipment, plant or machinery have to be imported, they will be more expensive – maybe by a factor of 10% or 20%. Also, the predicted rise in UK inflation, just under 3% this year, will add to the cost of everything else.

One solution is to keep your fingers crossed and hope the worst will not happen to you. However, sometimes it does!

Discovering underinsurance at that vulnerable moment when you make a claim could have a devastating effect on your business. For example, if the rebuild cost of your premises is £200,000 but you have insured them for only £100,000, the 'averaging clause' which is in most policies, means you won't be paid the full £100,000 you insured for (which in the circumstances would be bad enough) but instead you will receive only half of the £100,000 (which is probably catastrophic). But it's not just for premises; the same 'averaging' rules are likely to apply to your plant cover, your business interruption cover and so on.



So, what steps do you need to take to avoid the anguish of underinsurance?

- The most obvious is regular reviews and valuations to keep your asset sums insured in line with reality, the pound and inflation.
- If you have bought an online package, double-check the standard limits to ensure they are adequate for your business.
- With business interruption cover, make sure your gross profit assessment matches the policy's. Accountants have a different method for measuring gross profit to insurers!
- For the indemnity period on business interruption cover, remember that 24 months is likely to be the minimum period it takes to get your business back on track, particularly with the potential disruptions and delays Brexit may throw up after 2019.
- Consider the liabilities you have accepted in your client contracts and make sure they are covered. In addition, assess the potential for new risks to your business such as cyber threats or data protection issues – the laws relating to both are likely to become stricter and will apply inside or outside the EU.

Above all, make sure you are confident that your current policies are adequate to cover potential losses.

Centor can help. If you think you might be underinsured, contact Richard Grainger on 0207 330 8705.