



**Morton Michel**  
The **Childcare Insurance** Specialist

# Morton Michel

## Important Information

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# What is **underinsurance?**

Your insurance premium is calculated based on the amount of cover you choose to take out to protect your property. Underinsurance occurs when you've not taken out the right amount of insurance cover for your needs.



**What does it mean** if I am underinsured?



**Taking out insufficient insurance cover will essentially mean any claim will be insufficiently covered.**

Being underinsured does not mean you have intentionally chosen to declare a lower sum insured in return for a lower insurance premium; there is often confusion between the market value of a property and its rebuild cost. Likewise, you may have brought the business and its assets, maintaining the level of insurance the previous owner arranged.

**What does it mean** if I am underinsured?  
*continued*



**For example:**

- Your premises is insured for £500,000 but the accurate rebuild valuation of your premises is £1 m
- You suffer a loss and the result is £70,000 damage
- The outcome would likely mean you will be responsible for £35,000 of the cost of the claim as you are 50% underinsured

**To prevent this undesirable situation it is vital that you ensure that the sums insured are accurate and seek independent professional advice where appropriate.**



Make sure you let your broker know about any changes to your business. Ask them to help you understand how you should assess whether your cover is sufficient for your needs and what professional help may be available.

Remember that some changes to your business might not just relate to contents or building insurance. If you have, for example, bought specialist equipment that takes time to replace, this will impact the amount of time it might take for you to get back on your feet after say, a flood. Therefore this might impact the amount of business interruption insurance you need.



**How do I  
know** if I'm  
underinsured?



## **Important considerations**

It is very difficult for insurers to determine what sums insured adequately meet your unique business requirements without your input. You will understand how your business is performing, what investment is being made and how much you spend.

Here are some of our useful top tips to follow when considering your insuring requirements!



# 1



## CONTENTS INSURANCE

Include all your contents (toys, furniture, white goods etc.)

Consider the replacement cost of goods (excluding any sale or bulk purchase discounts)

Include the replacement value of donated items and contents in any sheds or outbuildings

Consider if you need to include the replacement value of any leased or hired equipment

Plan for additional investment and include in your required sum insured

Insure the value of ALL of your assets, not just what you consider to be at risk

Consider drawing up an inventory as this helps with calculating your requirement and is extremely useful after an extensive damage event





## 2

### **BUSINESS INTERRUPTION** *(Indemnity Periods)*

The indemnity period starts on the day damage occurs and it lasts for the period during which your business is affected as a result of the damage, but for no longer than the maximum indemnity period. Therefore, setting an adequate Maximum Indemnity Period is as important as calculating a correct sum insured in the event of a large loss.





# 3

## **BUSINESS INTERRUPTION (Indemnity Periods) Continued..**

Consider:

Time it will take to rebuild your building (include  
demolishing and planning)

Unforeseen difficulties (changes in building regulations,  
discovery of hazardous materials such as asbestos)

Decoration and refurbishment

Recruiting and retraining staff

Seasonality: a loss may cause a business to miss  
important trading periods

Difficulty in winning back lost customers  
and opportunities





# 4

## **BUSINESS INTERRUPTION** *(Continuity Planning)*

An effective business continuity plan can make all the difference to the size of a loss and the ability of a business to continue trading and make a full recovery.

Business continuity planning can help a business understand what risks they are facing, how best to tackle them and to check their insurance cover is adequate in the event of a large range of circumstances. This puts the business in a better place to assess and plan for the possible consequences and potentially reduce the period over which it will be affected by a loss.





# 5

## **BUSINESS INTERRUPTION (Continuity Planning) Continued..**

ROBUST (Resilient Business Software Toolkit) is a tool that has been developed by industry experts and can help you to produce an effective Business Continuity Plan quickly and efficiently and manage incidents to recovery in a timely fashion.

This service is available for download and is absolutely free.

<https://robust.riscauthority.co.uk>





# 6

## **BUSINESS INTERRUPTION** *(Sum Insured)*

The sum insured is based on the gross annual revenue or turnover (the money paid or payable to you for work done and services rendered in the course of the business).





# 7

## **BUSINESS INTERRUPTION** ***(Sum Insured) Continued...***

Calculate how many paying customers you anticipate if operating at capacity

Include allowances for any potential growth & expansion plans

Have you received any funding? This will need to be included in your revenue calculations

If you are forecasting to grow rapidly throughout the year, set aside some time to carry out a mid-year review of your projections

Ensure your business continuity plan is up to date.





# 8

## **BUSINESS INTERRUPTION** ***(Sum Insured) Continued...***

Calculate on the maximum likely Revenue following the date of the loss e.g., if your business were to suffer a loss on the last day of the policy period, your sum insured would need to represent the revenue lost for your indemnity period from the loss date.

In a growing or stable business, your sum insured should reflect:

Projected revenue for year 2  
(12-month indemnity period)

Projected revenue for years 2 & 3  
(24-month indemnity period)

Projected revenue for  
years 2, 3, & 4  
(36-month indemnity period)





## 9 BUILDINGS

The level of insurance must reflect the total cost of rebuilding, not the market value

Include allowances for (but not limited to) professional fees (solicitors, architects), demolition and debris removal costs

Consider if you need to include or exclude VAT in your rebuild assessment

Commission an insurance reinstatement cost assessment every 2-3 years to align with changes in the costs of services, building materials and labour

Ensure any assessment you commission is conducted to Royal Institution of Chartered Surveyors (RICS) principles and is specifically for insurance purposes





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