

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 the same insurance policy 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.





Risk less

In association with



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 385 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.

How to avoid this scenario



Expert support

Your broker can work with you, and their network of 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.

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¹Based on analysis of large claims (more than £100,000) that were settled by Aviva between 2018-2021.

Macbeth Insurance Brokers and Aviva are working together to help protect businesses against the risk of underinsurance.

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

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