

Is your Nursery properly insured?

According to the Royal Institute of Chartered Surveyors, 80% of commercial properties indicate various levels of underinsurance. It is also estimated the average commercial property in the UK is underinsured by 49%. This can have a severe impact on the amount of money received in the event of a claim.

During an economic downturn, looking for ways to reduce premiums is prudent; however underinsurance can be a false economy if faced with the financial hardship of settling a loss below the cost of reinstatement.

Underinsurance is often caused through ignorance. Many customers are unaware how the insurance principle of 'average' works and how it affects the value of a future claim. Any shortfall in a buildings sum insured will be reflected in a proportionate shortfall in claim settlement in the event of an insurable loss. In simple terms, if your declared sum insured is only 50% of the true value of all the property, then insurers may only pay 50% of your total material damage claim.

Know the dangers

Average Example

Actual Property Value	£100,000
Sum Insured Value	£50,000
Underinsurance	50%

Flood Claim

Claim value	£50,000
Sum insured value	£50,000
Underinsurance	50%
Claims Settlement @ 50% of maximum sum insured	£25,000
Shortfall	£25,000

Most policies have an index-linking clause which helps policy holders keep up with inflation. By automatically increasing your sum insured, your insurance will be maintained at a level where 'average' should not apply. However, this cannot be wholly relied upon for a number of reasons. Levels would be compounded if an under-valued sum insured is declared in the first place and this process of index-linking does not take into account improvements or extensions made to the property.

It is a misconception that the sum insured is the same as market value – there is no correlation between the two. Neither should it be based on developers' costs; most definitions include the rebuilding costs plus any additional costs such as architects' fees and demolition costs.

It is very difficult to accurately calculate the rebuilding costs of a property as factors such as size, age, type of property, location, whether the building is "listed", of an unusual design, a new build and construction details will impact a reinstatement valuation.

Broker top tips

- Make sure you speak to your broker. Without proper advice your business may not be protected.
- Don't guess. Get a proper valuation so an accurate sum insured is declared at inception.
- Review your sum insured regularly, so your policy keeps pace with your business needs. For instance, at renewal time let your broker know of any changes to the business since your last review – like the purchase of new outdoor play equipment.
- Undertake a reinstatement cost assessment for insurance purposes every three to five years. This will also identify over-insurance to avoid paying excessive premiums.

Towergate has been providing specialist broking services to the caring sector for more than 30 years. We can help protect your business, employees and children with cover from a leading insurer.

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i Based on Gleeds Durden data 2012

ii Based on Gleeds Durden data compiled from building reinstatement values undertaken up to 2009