

Five Common Business Insurance Mistakes

In today's technology driven market, business insurance can easily be bought online however many businesses are unaware of what they are buying and in particular, the warranties and terms within these policy wordings. The same also applies to policies sold by brokers who have not visited the business premises for several years or indeed at all, nor have they carried out a thorough review of the businesses current and future requirements.

Commercial insurance is a complex area, as policy wordings vary greatly from insurer to insurer and the temptation to base your choice of broker and insurer on price alone can understandably be strong. Unfortunately, these decisions lead to mistakes, often only highlighted following a loss. Here are the 5 most common mistakes:

1 – Getting the Business Description not quite right

Online quote engines usually have a drop down box containing very generic business descriptions. Please be careful to ensure that the description you choose covers ALL of your business activities. Classic problem areas can be web-design (do you offer hosting? Do you build e-commerce sites?), building trades (especially when you are using subcontractors) and marketing companies (do you for example provide direct mailing services?)

Getting the business description wrong could lead to all sorts of problems should you need to rely on your insurance to make a claim.

2 – Not reading the terms and conditions

Business Insurance policies are made up of warranties and conditions precedent. Failure to comply with them could lead to a claim being turned down or even your entire policy being invalidated. Classic examples include warranties and conditions that expect you to have a required level of security at your premises, or check the insurances of your subcontractors, or have the Electrical Installation at your premises inspected. Please double check that you know exactly what terms your insurers are applying and that you can comply with them

3 – Underinsurance

Most material damage policies include the Average Clause. This clause is designed to discourage under-insurance by adjusting claims by the amount of underinsurance.

For example, you insure your contents with a sum insured of £50,000. The actual replacement value of your contents is in fact £75,000. You suffer a break-in and the claim totals £20,000. Your insurance company will settle the claim as follows:

$$\frac{\text{Sum insured}}{\text{Value at risk}} \times \text{amount claimed}$$


In this case

$$\begin{array}{r} \text{£50,000} \\ \text{-----} \\ \text{£75,000} \end{array} \quad \times \quad \text{£20,000} = \text{£13,333}$$

Under-insuring would have cost you £6,667 – a classic business insurance mistake.

4 – Buying purely on price

Do you know how good your insurance company is? Do they have a good security rating? What is their claims service like? How does their wording compare to that of competitors? All of these are very important considerations and yet are sometimes overlooked.

5 – Not reviewing

As your business changes, so must your insurances. Please make sure that your insurance company is kept aware of any changes to your business such as new products or services being offered, new markets (what are your policy's territorial limits?), changes in the agreed security at your premises, and (especially if your policy is rated on a per capita basis) changes in the company head-count

Hopefully you have found these points to be helpful. One way of trying to avoid making these common business insurance mistakes is to use the services of a commercial insurance broker. By appointing Hamilton Leigh, you will receive expert and proactive advice in addition to competitive and wide-ranging cover from the insurance market.

Even if your insurances are not yet due for renewal, why not let us carry out a 'Conceptual Insurance Audit' of your current insurance arrangements?

Your Business Our Focus

