

# Commercial Insurance Profile

July 2018

## Don't Be a Statistic: The Alarming Extent of Underinsurance



**40% of BI policies are underinsured**



**75% of BI policies have an  
indemnity period of only 12  
months**



**40% of respondents listed  
inconsistent definitions of gross  
profit as the primary cause of BI  
underinsurance**

Source: Chartered Institute of Loss Adjusters

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## Revealed: The Leading Causes of Underinsurance and How to Fix It

No matter how bright the future looks for your business, you never know when disaster will strike. Whether it be a flood or destructive building fire, it is vital to have proper insurance policies to protect your business from any interruptions—especially if you are a SME with minimal financial flexibility. As a result, many businesses purchase business interruption (BI) policies for peace of mind in the event of unexpected disaster.

However, what happens when your BI policy fails to cover the entirety of your company's financial loss? Unfortunately, this scenario is a common occurrence for businesses across the UK. The Chartered Institute of Loss Adjusters (CILA) found in recent research that 43 per cent of BI policies are underinsured by an average of 53 per cent. The following list contains the leading causes for BI underinsurance, as well as tips to remedy the problem:

- **Insufficient indemnity periods**—Approximately 75 per cent of BI policies have an indemnity period of 12 months, according to industry research. However, one year is usually an unrealistic expectation for a business to have fully recovered after a disaster. To combat this issue, be sure to calculate and set a realistic indemnity period that gives your business an appropriate time span to reach financial stability. This period typically falls between 18 and 24 months.
- **Inadequate sums insured for BI policies**—Often, inadequate insurance sums for BI policies stem from outdated, roughly estimated or altogether incorrect valuations on commercial properties. It is important that you think about rebuild costs when calculating your BI policy. In addition, complete an annual review of your policy with your broker to ensure the accuracy of your valuation as your business (and your property) develops and changes throughout the years.
- **Failure to include wages in the gross profit calculation**—In the CILA survey, 2 out of 5 respondents listed inconsistent definitions of gross profit as the primary cause of BI underinsurance. The average definition tends to exclude staff wages and utility costs, while for insurance purposes, those are crucial to calculating an appropriate gross profit. Make sure your gross profit calculation is accurate by including staff and utility costs.

## The Numbers Behind the Crisis: Why You Should Prioritise Mental Health

- **1 in 4 people** experience some kind of mental health problem each year
- **70 million** working days are lost each year due to mental health illness
- Poor mental health costs UK businesses **£33 billion to £42 billion** annually, with over half due to presenteeism
- Improved mental health support in the workplace can generate between **£1.5 and £9 for every £1 spent**

Source: Deloitte, Mind (the mental health charity) and government research

## Why the GDPR Means You Need More Cyber and D&O Insurance

Last year was a record-breaking year in terms of cyber claims, totalling more claims than the previous four years combined, according to recent industry research. However, researchers predict that cyber claims will rise now more than ever as a result of the General Data Protection Regulation (GDPR). Due to the GDPR's strict regulations and hefty non-compliance fines, the consequences your business may face in the event of cyber-attacks and data breaches are at an all-time high.

Apart from the need for increased cyber-insurance, researchers also predict that the GDPR will cause a surge in directors' and officers' (D&O) insurance claims. The GDPR essentially places direct responsibility on directors and officers to prioritise cyber-security throughout their organisation. Failing to do so could make them personally liable. To protect your directors and officers, consider adopting the following best practices:

- Approach cyber-security as an organisation-wide risk management issue, not just an IT issue.
- Understand the legal implications of cyber-risks.
- Ensure adequate access to cyber-security expertise and encourage regular discussions on cyber-risk management.
- Set an expectation that management will generate a cyber-risk management framework with proper staffing and budget.
- Discuss cyber-risk in terms of which risks to avoid, which to accept, and which to mitigate or transfer through insurance.

For more information on the need for increased cyber and D&O insurance, contact MacKay Corporate Insurance Brokers today.

## How Championing Mental Health at Work Can Save You Money

At least 1 in 4 people will experience some kind of mental health problem each year, according to the Mental Health Foundation. The mental health crisis has come at a cost to UK businesses as well—research shows 70 million working days are lost each year due to mental health illness, costing employers £33 billion to £42 billion annually. By investing in mental health at your workplace, research shows you can achieve a significant ROI. In fact, improved mental health support can generate between £1.50 and £9 for every £1 spent from reduced turnover, fewer illness absences and increased productivity. Follow these guidelines to champion mental health at your workplace and reap the rewards:

- Develop mental health awareness among your employees.
- Encourage conversation about mental health and highlight resources available for those who are struggling, such as a helpline or local support group.
- Provide your employees with good working conditions, ensuring a healthy work-life balance and opportunities for career growth or personal development.
- Monitor your employees' mental health and well-being.

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