



How to make sure your rural business is never under insured

Running a rural business is challenging enough without having to deal with a dispute with your insurers in the event of a claim. Here we outline the steps you should take to make sure your business is adequately valued and protected.

What happens if you are underinsured?

If you have inadvertently under estimated the real value of your rural buildings, plant, machinery, fixtures and fittings or stock, your insurer will refer to the 'average clause' in your policy. This allows them to proportionately reduce the value of the claim, for example:

- Buildings are insured for £200,000
- The true cost of a rebuild is calculated at £400,000
- Consequently there is 50% under insurance
- The buildings are partially damaged by fire and the cost of reinstatement is £75,000.
- Insurers apply the 'average clause' to the claim and reduce the amount paid by 50% (the amount of under insurance) to £37,500, leaving you to find the balance.

The cost of both rebuilding and replacing buildings and contents, as well as the loss of profit emanating from a major loss, can be much greater than people think.

Factors to consider when estimating value

Make sure you take the following factors into consideration when estimating sums insured values:

- **Changing legislation:** New stricter legislation should be considered when calculating any rebuilding or replacement costs. Recent changes in Landfill Tax could seriously affect the costs of debris removal. Requirements driven by Local Authorities also play a major influence on potential cost, such as planning delays. Where buildings are Listed this can add both further costs in actual materials as well as overall rebuilding costs.



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- **Increasing construction costs:** The construction industry can be volatile in terms of costs, with building tender price inflation running much faster than UK inflation. Increased costs pressures such as London 2012, as well as other major construction projects and periods such as the recent major flooding events, all affect increased prices and shortages of both labour and materials.
- **Changing plant and machinery costs:** In terms of plant and machinery, replacement costs can be much higher than first thought. Changes in currency exchange are often overlooked, as are overseas labour costs which are now rising in many countries, as well as the overall cost of raw materials such as oil and steel.
- **Don't forget ancillary areas:** such as access roads, perimeter walls, fences and car parks, as well as the overall costs for re-landscaping, within your building values.

How can Lycetts help?

When researching the most appropriate cover for your rural business, we will also include a detailed business interruption review.

This will:

- Identify the most critical functions within your business and the major assets
- Quantify the financial impact of likely losses or business interruptions
- Identify interdependences externally through the supply chain as well as within the organisation itself
- Understand your recovery priorities and timescales

For an accurate valuation of your cover needs, including a complimentary business interruption review, please contact us.

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