



Insurance Tomorrow



Avoiding Underinsurance

Steph McGovern: Hello, and welcome to Insurance Tomorrow, a podcast brought to you by Allianz insurance, with me, Steph McGovern. Now, this is the series where we look at what's happening in the world and how it might impact the insurance industry. There are plenty of episodes to listen to, covering everything from how claims are changing to the impact of supply chains and open finance. You can listen to them all online. Now, in this episode, we're going to talk about underinsurance. When disaster strikes, having the right level of insurance cover is essential. And as inflation rises and the uncertainty of the economy continues, there's concern that more businesses can find themselves inadvertently adding to their pain if they suffer a loss, and we want to make sure that doesn't happen. So with me to talk this through, we have our experts in the field, Helen Bryant, Director of Digital Trading at Allianz, and Alastair Blundell, Head of General Insurance at BIBA, which is of course the British Insurance Brokers' Association. So Helen, first of all, can you just remind us what underinsurance is?

Helen Bryant: So this is where our customers have either inadvertently, or sometimes on purpose misrepresented, their sums insured that are required to adequately rebuild their business in the event of a claim. So for example, they've told us their property might be worth a £100,000 pounds to rebuild it, but actually it's more like £200,000, and in those circumstances, at the point of claim, a customer would then find out that they don't have an adequate insurance coverage to actually get themselves back up and trading again.

Steph McGovern: So Alastair, what are the consequences then of being underinsured?

Alastair Blundell: As Helen alludes there, Steph, it's the financial hardship that the customer could find themselves in following a loss. So they may be expecting 100% of the claim to be paid out, but actually they only get 50% of the claim paid out. Translating that into the small business environment, let's say, you're a manufacturer also. And you decide that actually, if I have a fire at my premises and my building burns down, I could be back up and running in 12 months, so I'll buy insurance to reflect that. And that's called an indemnity period. But actually given where we are at the moment, that could actually take two years to get you back into business. And say if you run out of money in the intervening two years, your business could go bust. So getting the right indemnity period for your business interruption is also very, very important. And there's lots of pressures at the moment that are driving why the costs of rebuilding and the time to rebuild are just growing at this stage, because of factors such as inflation and big pressures on the supply, chain and the availability of labour.

Steph McGovern: So this can be really quite devastating for a company, can't it? Because it's not just a case of losing a bit of money, this can set them back years and even in worse cases, could send them under.

Helen Bryant: Absolutely, I think it's so critical. And I think unfortunately, one of the challenges I think the insurance industry has is the payment of a claim is a promise that in the event of that real hardship, that we will be there to get you back up and running. But it's not necessarily tangible to an end customer. If those levels are not adequate and you can't afford to actually

have your premises rebuilt, then that will be fundamental to your ability to trade going forward. And unfortunately, mainly in that some customers have no choice but to actually close down their businesses,

Steph McGovern: They're the reasons why this is a huge problem. So Alastair, why does this happen?

Alastair Blundell: I think as Helen pointed out, that some people sleepwalk into this problem, not knowingly. And we're living through a period of high inflation, so people aren't perhaps getting their buildings valued properly, which is a key point. And we'd recommend that a building gets looked at at least every year at this time. Some research recently showed that the average period of revaluation is over two and a half years. And during the pandemic, that gap's widened. So you've got a real problem of insuring a building at a lower sum insured than the real value of replacing that building or reinstating that building is. And that's a real issue. So we advise that you must get a professional valuation, and a broker can advise the client on how to arrange that, and make sure that valuation is reviewed regularly.

Steph McGovern: So it's not necessarily on purpose then, this could just be an accident because they're not really aware of the external factors that are changing things in their business.

Alastair Blundell: Yeah. And a very good example of that stuff is that people don't quite understand. And this is, again, where a broker can advise, what's the difference between a market valuation versus a reinstatement valuation. You shouldn't use the market valuations, a barometer for setting the value at risk, you've really got to think, "Actually, if it burns down today, what's it going to cost me to reinstate that building?" And that number could be far, far higher. So again, it's not an intentional that on the part of the client, in most cases, it's just perhaps just not being aware of how to arrange an insurance policy. And that's where a broker comes in and can advise.

Steph McGovern: Helen, why do you think there is this lack of awareness in businesses then? Because we're all seeing the news and hearing about inflation.

Helen Bryant: I just think that the reality is that insurance and considerations around it are just not front of mind for those people. You're running a business, you've probably got some much more pressing issues about actually trading profitably, especially given that the challenges that the economy has faced. And some recent data that we saw said that 55% of customers only ever think about whether their insurance is adequate at renewal, once a year. And perhaps in the past, that might have been okay because, say, low inflation environments and actually a pretty stable economic world around you, that that might have been sufficient. But now in a situation where we've got very high inflation, which is driven some considerable changes to values and the impact on supply chains, but also I would call out the impact of COVID is a new factor.

We actually saw, in the first few months of the first lockdown, just under 10% of our entire small business customer base changed their policies in terms of their levels of cover. And we attribute that to their change in circumstances because of a lockdown, because of COVID. Very understandably seeking to reduce premiums, they've got much more limited trading, and therefore, you do the sensible thing and save yourself some money in a very difficult environment. What we have not seen is, as the economy recovered, that customers have reversed any of those changes at the same pace with which they made those changes. And I say, we don't sit here and think that people are doing that from deliberate standpoint, but it does leave them in a very real risky situation should claims occur.

Steph McGovern: And Alastair, you wanted to add to this.

Alastair Blundell: And just actually to build on that point Helen makes, during the pandemic, a lot of people did change their modus operandi. A lot of people who had physical operations moved to an online trading pattern, so that brings different risks and different insurance requirements. And so for example, has an SME got a proper cyber policy, that insulates them against the risks of cyber-attack? Our research says that actually only about 4% of SMEs have that type of cover. So if you've moved to an online trading pattern because of COVID, and you haven't got a proper cyber policy, your business is at serious financial risk, if you get interrupted by a hacker or ransomed, to enable you to continue to trade. So new considerations that the pandemic's presented.

Steph McGovern: Yeah. So Helen, where do you think the responsibility lies on getting businesses to know? Because we've talked about potential changes that they might not be aware of, and as you say, the way businesses have had to pivot, which has changed their insurance needs and everything else. So what can be done about it?

Helen Bryant: The onus is on us as an industry, but I think this is really where brokers can demonstrate the very real value of advice. So when you think about some customers who buy direct, and the inherent risks that may come with that, about making their own assessments, and we have statistics that suggest only 18% of customers actually know the real value of their properties. So it gives you a suggestion that they do need some professional advice to actually ensure that they have understood the risks that they face, and the limits and covers that would be appropriate to protect their business. And I think it's a real opportunity for brokers because we've been through a very torrid time as an industry because of COVID, and the perceived response to policies not perhaps paying out, where customers thought they might have had cover. But here is where the broker engaging with customers, understanding touch points in their customer's business life cycles, where they may be changing the nature of their business, or what they might be impacted by.

Having those appropriate contact points and ensuring that they're encouraging their customers to actually make those changes and inform them is a really critical role that our brokers can play.

Steph McGovern: Yeah. And Alastair, do you think that is achievable? Because that is also a lot for a broker now to do, to keep across absolutely everything going on when we know everything's so fast-paced at the moment.

Alastair Blundell: Yeah. And SME have got lots of other pressures, so it's how high up their pecking order is insurance. But our brokers are largely community-based brokers, regional brokers, who have got long-term relationships, hopefully, with their clients. And they do play a key role, they are an advisor and they need to be in touch with their customers, as we come out, again, out of the pandemic, going back to those face-to-face meetings, sitting down with the customers, understanding how some insured limit indemnity has to be determined and validated, and why it's important to get a valuation done regularly, how to go about getting

that done. And just, I guess, a key advisor are holding their hand, and really pointing out the fact that hopefully you won't get a loss, you won't have a claim, but let's plan for the worst. Make sure that insurance is a vital part that sits alongside your business continuity plan.

So if something does happen, you get paid out in full you're financially insulated, and you can work also with insurers, and with loss adjusters, to get your claim paid quickly, and get yourself back on your feet. And also, I guess, also Steph, trying to make sure that they are fully protected. So come back to the cyber point, there's no holes in their protection, or they're buying sufficient limits of liability. What we've seen recently, for example, little known fact is that revisions to the discount rate mean that personal injury claims have gone up substantially. So if an SME is carrying a couple of million pounds of public liability insurance, that might not be sufficient, maybe they need £ 5 million, maybe they need £ 10 million. That's easily obtainable, but someone needs to be advising the client about what is the adequate limit for their business and for their needs.

Steph McGovern: I can totally hear what you're saying about why that all needs to be done, but that also could be quite a scary chat to have, couldn't it? In terms of saying that you mentioned there about the public liability, that big jump in numbers. What would be your advice for brokers and actually doing that, there might be a bit of cynicism about, "Oh, this is them just wanting to make more money"? What would you say to brokers about dealing with that, about how to have that conversation?

Alastair Blundell: That's a really good point because insurances get cost money. We're in a period, what we term a hard market, Steph, where premium rates have been increasing over the last two to three years. And we've got a cost of living crunch, energy costs are going through the roof. So insurance is just another expense that needs to be managed. It is a very difficult task, but the relationships that our brokers have with their clients are long term. They can demonstrate the value, particularly a time of claim, that they've historically shown what if the worst does happen, that a claim's been paid. And also the broker ultimately is the agent of the client and needs to demonstrate that. And then the broker goes out and finds the best solution for the client's needs. That doesn't just mean price, it means what's the best cover? And also advises on, on a whole range of what's good risk management practice as a business, because

in the end, no one wants to have a fire, no one wants to close down their business, even if insurance is going to step in.

You want to avoid that loss happening. It's about building a partnership and demonstrating value, I guess.

Steph McGovern: It's not an easy conversation, but I guess there are no easy conversations to be had at the minute. So Helen, how often do you think this should be happening then? Because we've all said we should be regularly assessing. What are you thinking in terms of how often brokers should be talking to businesses, or indeed businesses should then themselves be looking at their insurance? What are your thoughts on that?

Helen Bryant: It's a really challenging question because I think Alastair mentioned previously, that in the past, we might have said that property valuations could hold true for a couple of years, we're now saying in the current environment that just isn't the case. And brokers face the challenge, which I think is very real, if they have broad customer bases, they've got customers who are busy running businesses, and they've got a contact issue. I think actually there's an opportunity here for brokers in terms of using data sensibly, to actually identify key changes in terms of things that might be impacting them. So I think the days of, "I only speak to you once a year at renewal," have disappeared, but also recognizing that brokers are under their own pressures, and thinking about how they can become smarter about contacting and engaging with their customers. Is that more about greater use of social media, different contact methods, et cetera? To try and keep this front of mind for customers.

And it's definitely not about the fear-mongering I think. I think you made that point earlier, it could be quite scary, but it's actually about take these steps, be proactive, have it front of mind and make sure you're adequately prepared. But I do think it requires brokers and insurers to be a bit more innovative in how they engage and contact customers going forward.

Steph McGovern: Yeah. Is this the new normal, or are we in an extraordinary period in terms of the impact on insurance? And could it be a case of, for now, you all just need to be on it while we go through this turbulent period? But then it should chill out again and you won't have to think about it as much. What do you think, Alastair?

Alastair Blundell: I think, I mean, our industry's always been cyclical in the sense of, it goes through periods of what we call hard and soft markets. And we're in a hard market at the moment, but that's been going on for two years, and we've got some big headwinds given inflation, and insurers will need to keep up with that in terms of how they price risk. So I think it will continue into this year and beyond, but history shows that it does normalize over time. But how does the client save costs? And this comes down to the broker I guess. The broker's job is to present the risk that the client presents in the best possible light to the insurer, and to canvas the market for the best possible insurance deal, and advise the client also on what is best practice when it comes to avoiding claims and managing down claims. So it's that larger risk advisory role that the broker plays.

And it's not just about the placement of the premium. The premium, of course, ultimately is important. And it's a long-term thing, I would say that's it, it's a long-term partnership that we seek to build with the client. So we're here today and we're here tomorrow.

Steph McGovern: So just in terms then of wrapping things up, what are the key things, Helen, you want people to take away from everything we've been saying in terms of the priorities, or indeed the opportunities? Well, what are your thoughts?

Helen Bryant: What I hope people would take away from today is that underinsurance is not just a risk, it is real and happening right now. We know definitively that significant groups of customers will currently be underinsured. And I'd say I think we have a responsibility as an industry to try and help protect people and make sure that that is not the case, and we intervene and we take action to try and ensure that's not the case. I think it's about, for me as well, for our broker partners that we work with, it is thinking about, can they do things in slightly different ways from before? So we talked previously about different communication opportunities with customers, and perhaps the need to increase the regularity and the nature of that communication.

And I also think that the knowledge and understanding of insurance is quite an interesting piece as well. I think in the past that potentially around small business, which is often subject to index linking, brokers and customers may have felt a sense of reassurance that index linking would've protected them in the past. We're in a situation now where that sums insured and

levels of cover have changed so significantly that that can't be relied upon. And we know 18% of customers probably didn't know the correct start point for their cover anyway, or that we have a very immediate and clear need to intervene and to try and ensure we can all do the best for our customers, so that at that point of claim, they can actually make sure that their business is protected, and we can get them back up and running as soon as humanly possible.

Steph McGovern: And Alastair, what about you? How did you want to conclude things?

Alastair Blundell: Just to echo what Helen said in terms of the size of the problem. We've got some stats that show that pre the pandemic about 20% of claims exhibited underinsurance, the latest stat show that number's risen to 40. And that's really before the super inflation took hold in the last few months. So we know that problem is getting worse. So it's really vital for insurance brokers to be on this issue. And it's a situation where they can really demonstrate value. So they can sit down with their clients, explain the pitfalls of underinsurance, make sure the valuations are current, and make sure that the coverage that they buy is also sufficient to meet their needs. So they have a real chance to shine. And in a word, I would say that a good insurance broker is the antidote to the problem of underinsurance.

Steph McGovern: Well, thanks so much for that Alastair, I think it really sums it up. So thanks to Alastair Blundell from BIBA, and of course, Helen Bryant from Allianz. Please do subscribe to the series and then you will never miss an episode. Also, we would love it if you left a review for us as well. Thank you very much for listening. That's it for me, Steph McGovern, and Allianz Insurance. Goodbye.