TOWERGATE
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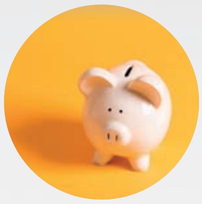

GOVERNMENT EXPECTS INSURERS TO PASS ON DISCOUNT RATE SAVINGS

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BUSINESS INTERRUPTION CONFUSION CONTINUES

Underinsurance remains a key problem, suggests CII

Companies need to ensure they are not leaving themselves underinsured when it comes to business interruption insurance, according to a key industry body.

Business interruption insurance covers the loss of income that a business suffers following a loss, and is considered an essential cover for a large swathe of companies. The cover protects the cash flow and profits whilst the business recovers, the aim being for the insured to be in the same position after the loss that they would have been in if the loss had not occurred.

In a recent report by the Chartered Insurance Institute , however, too many business interruption policy wordings do not tally with standard business practice, particularly where the issue of gross profit is concerned, which means that many UK businesses could effectively be underinsured.

The CII says that gross profit in a standard business interruption policy is typically defined as:

> 'Turnover plus closing stock and work in progress less Uninsured working expenses plus opening stock and work in progress'

However, the CII points out that this definition of gross profit is not the same as an Accountancy Firm or Auditors' definition of gross profit – a fact which it suggests leads to much confusion and underinsurance, as in most business interruption sum-insured calculations, uninsured working expenses are deducted from turnover to arrive at the insurable gross profit figure required for the policy.

The problem of underinsurance for business interruption insurance is not only related to the policy wording. Too many businesses often fail to appreciate how long it would take before their business would be up and running and generating the same levels of Gross Profit in the event of a major incident - a point covered by the policy indemnity period.

Your business interruption indemnity period covers you from the point of loss, to the point it takes for you to be trading at the same level, as if the loss had never occurred, however, crucially, this is only if you have an adequate indemnity period.

For example, if your business interruption loss took 24 months to return to pre-loss levels of income, but you only had a 12 month indemnity period, you would have no cover for months 13-24. It is also critical to remember that the indemnity period should cover the time it would take to return to pre-loss trading, not just the length of time it would take to rebuild, relocate or reinstate. Often, these aspects can be taken care of relatively quickly, but returning to previous trading and recovering your client base will have a significant lag in most cases. This is where a number of businesses continue to underestimate this vital element. Have you really factored in just how long it will take to rebuild a building, or the lead times to replace vital stock, contents and machinery? And then have you factored in the time to fully recover turnover and profits?

To avoid the potential pitfall of underinsurance for business interruption, speak to us and we will be able to advise you on how to accurately calculate the indemnity period, as well as other key sums insured.

Every client is unique and we will evaluate individual circumstances, but as a rule of thumb, Towergate recommend a minimum indemnity period of 24 months. 12 months is often likely to be inadequate and 18 months could pose a real danger of the indemnity period running out before trading is fully restored.

Business interruption in brief

Business interruption insurance should be added to the overall business insurance policy, providing cover for loss of income and helping the business to recover in the event of an incident. Business interruption insurance details vary from insurer to insurer, but all are based on an accurate assessment of the amount of time it would take for your business to recover from an event that impacts your normal operations.

Policies can cover business interruption as a result of:

- Damage caused to your own premises or equipment caused by fire, storm, flood or a range of other accidental insured events
- Damage caused by similar events to third party property in the vicinity of your premises, preventing access
- Damage caused by similar events to premises or infrastructure of your public utility providers

Policies can often be extended additionally to cover:

- Damage caused to the premises of your suppliers or clients or contract sites
- Mechanical or electrical breakdown of your essential plant items

UK AUTHORITIES MAY ASK FOR MORE MONEY FOR USING 'UNRATED' INSURERS

Using Towergate, you can rest assured in the knowledge that we will be able to obtain the most appropriate insurance policy for your business, including special relationships with a panel of eleven market leading insurers, all of whom are independently assessed as financially secure by the ratings agencies.

In short, our most valued relationships are with stable and secure insurers who can provide expert cover across hundreds of industries.

However, not all insurers operating in the UK market have the same level of financial security, and some of this 'capacity', to use the technical phrase, is unrated.

Now, according to reports, the Financial Services Compensation Scheme (FSCS) is mulling over raising levies on brokers in the UK who decide to continue to use unrated capacity.

Mark Neale, CEO of the FSCS, was quoted as saying he was "sympathetic" to the idea of so-called 'risk-based levies'.

"The greater the risk of your business, then the higher the levy you will pay to the FSCS," he said. "That principle is well established in other parts of the industry. That's the way the Pension Protection Fund works, for example. I'm certainly interested on whether we can incorporate risk into our levying."

The FSCS is the UK's statutory deposit insurance and investors compensation scheme for customers of authorised financial services firms. This means that FSCS can pay compensation if an insurer is unable, or likely to be unable, to pay in the event of a claim.

For business insurance, the FSCS guarantees up to 90% of the claim, with no upper limit.

Funding the FSCS has been a continuing bugbear, with the most recent news that it will need another £69m due to the continuing growth in pensions claims – particularly driven by claims relating to the British Steel Pension Scheme.

From April 2019, therefore, the Financial Conduct Authority's reforms to how the FSCS is funded will come into effect. These measures include merging the life and pensions and investment intermediation funding classes and requiring product providers to contribute around 25% of the compensation costs that fall to the intermediation classes.

The FSCS paid out £405m in compensation in the year 2017-2018. Neale declined to say whether the said numbers for the current financial year would be announced in the coming weeks.

GOVERNMENT EXPECTS INSURERS TO PASS ON DISCOUNT RATE SAVINGS

The Ministry of Justice (MOJ) has said it will put a system in place to monitor the extent to which insurers are passing on savings gleaned from recent changes to the discount rate, which could mean savings for employment liability and public liability insurance policies.

The discount rate concerns the calculation of compensation following personal injury. When claimants with severe injuries accept lump sum compensation payments, the actual amount they receive is adjusted according to the interest they can expect to earn by investing it.

The rate is linked, by law, to returns on supposedly low risk investments - in practice index-linked government bonds, known as gilts.

In the first change since 2001, this rate was controversially slashed by then Lord Chancellor Liz Truss by 3.25% points to minus 0.75%, effective from 20 March 2017. Truss said she calculated the new rate on the basis of a three-year average of real returns on gilts.

The government subsequently revised its proposals, instead introducing a discount rate that assumes claimants will take "low" rather than "very low" risks in investing their lump sum. If applied today, this could result in a rate of between 0% and 1%, the government said.

According to Lord Keen, Advocate General for Scotland and MOJ spokesman in the House of Lords, parliament expects the insurance industry to deliver on pledges to pass on discount rate reform savings and will be monitoring its progress.

Addressing the recent Association of British Insurers' motor conference on the Civil Liability Bill, currently going through parliament, he warned that if insurers do not deliver, then the government expects there will be a "robust" system in place to monitor whether their behaviour matches their commitment.

"The government welcomed the public commitment received from leading insurers that they would pass on the cost savings made following the implementation on these reforms," he commented.

"Having made this public pledge, the government fully intends to hold you to it and will be monitoring the effect of these reforms on the price of premiums."

UK INSURERS CONTINUE TO BACK CYBER

In a continuing indication of the growing importance of cyber insurance, QBE Insurance Group has become the latest major player to venture into this sector, investing $5m in cyber risk management firm Zeguro.

The investment is through its venture capital arm QBE Ventures.

At the same time, QBE said it will work with Zeguro on an initial rollout of the platform to create an insurance product that is designed specifically for SMEs.

Zeguro is an online platform that enables users to automate their cybersecurity processes, detect and manage cyber risks and improve risk mitigation. Zeguro also helps SMEs secure tailored insurance against damage in the event of a cyber-attack, according to the firm.

"The risks of cyber-attack are significant for any business," said QBE Group Chief Operations Officer David McMillan. "They can be hugely disruptive and extremely costly, so it is vital that companies have systems and processes in place to prevent or mitigate any kind of attack. Many small and medium businesses lack the resources to invest in high levels of IT security or risk management, which leaves them exposed."

QBE's investment comes as new figures reveal that small businesses in the UK are the target of an estimated 65,000 attempted cyber attacks every day, according to specialist insurer Hiscox.

The estimates are based on tests undertaken by the insurer which monitor, in real-time, the total number of attempted attacks on three 'honeypot' computer systems which are typical of those used by small firms across the country.

The total number of attempted attacks ranged from 900 to 359,000 in each 24 hour period, averaging 65,000 over the three weeks the servers have been monitored.

According to the insurer, almost one in three (30%) of UK small businesses suffered a cyber breach last year – equivalent to over 4,500 successful attacks per day or one every 19 seconds.

It added that cyber security incidents cost the average small business £25,700 last year in direct costs (e.g. ransoms paid and hardware replaced) but this is just the beginning. Indirect cost such as damage to reputation, the impact of losing customers and difficulty attracting future customers, remains unmeasured but is expected to significantly exceed this.

Towergate Insurance Brokers' key Cyber insurer partner CFC, will launch a new round of upgrades to its award-winning cyber product in February

HIGH SUBSIDENCE CLAIMS LIKELY TO CONTINUE IF PREDICTIONS ARE CORRECT

With insurers experiencing record claims this year, UK commercial property owners should be alert to the early warning signs of subsidence given the likelihood of another scorching summer in 2019.

According to a study by the University of Brest in France, manmade global warming and a natural surge in the Earth's surface temperature will join forces to make the next five years exceptionally hot.

"This warm phase is reinforcing long-term climate change," lead author Florian Sevellec, a climate scientist at the University, said. "This particular phase is expected to continue for at least five years."

His comments come as the Association of British Insurers (ABI) revealed that more than 10,000 households made claims worth a total of £64m to deal with the impact of subsidence in just three months of this year.

The figures for July, August and September are the highest level of subsidence claims since the record-breaking heatwaves of 2003 and 2006. The hot weather of 2018 saw some UK regions experience the driest months on record, particularly in the South East which is also well-known for building on subsidence-prone clay soil.

From the previous quarter, the number of claims jumped from 2,500 to 10,000 – rising in value from £14m to £64m.

This increase of 350% is the highest quarter-on-quarter increase since records began more than 25 years ago.

Subsidence is an especial risk to commercial property, with pipework and electrical wiring under threat from the sinking and movement of walls, according to Finnish underpinning specialist Geobear.

Subsidence usually occurs when the ground beneath a building loses moisture and shrinks. This can be caused by prolonged dry spells which cause soil to lose water, as well as nearby trees and shrubs which can absorb significant volumes of water from the soil.

The ABI has also provided the following advice on how to tell the difference between subsidence and general wear and tear:

- Subsidence cracks usually appear very suddenly, rather than gradually;
- They are usually diagonal, and wider at the top than the bottom;
- They tend to be thicker than a 10p coin;
- They are often found around doors and windows;
- Subsidence may also cause dry wallpaper to rip or crinkle and;
- doors and windows may start to stick.

Cover for repairs following subsidence, heave and landslip is usually included within household buildings insurance. For commercial property and landlords insurance, it is often covered by way of an optional extension, so may not be automatically included.

For further information on subsidence and to discuss the details of your buildings insurance, please contact your usual Towergate Advisor.

RETURN OF THE 'BEAST FROM THE EAST'

Forecasters have warned of a repeat of last year's Beast from the East until March. This time last year extreme weather stranded drivers on motorways, grounded flights and generally caused disruption to businesses. Britons have been warned to expect and prepare for severe and life-threatening weather in the coming weeks and beyond.

This could be a precarious period for businesses, so planning for poor weather conditions can help your business run smoothly and prevent costly claims. Here we offer some simple advice to cope with the expected cold conditions.

Property maintenance

Freezing conditions cause a variety of problems ranging from the failure of public utilities to burst pipes and flooding which could prevent you working from your usual premises.

What you can do: preventative measures include regular servicing of utilities, dealing promptly with problems like dripping taps, making sure pipes are insulated and keeping the heating on during freezing conditions. If the worse should happen ensure you have a contingency plan that enables you to work temporarily from another location.

Slips and trips

You're responsible for providing a safe environment for staff and visitors to your premises so do what you can to make sure they don't slip or trip when entering or leaving.

What you can do: sign up for severe weather alerts, buy grit or salt in advance, clear snow and ice as soon as possible, establish safe access routes, use warning signs and cordon off problem areas.

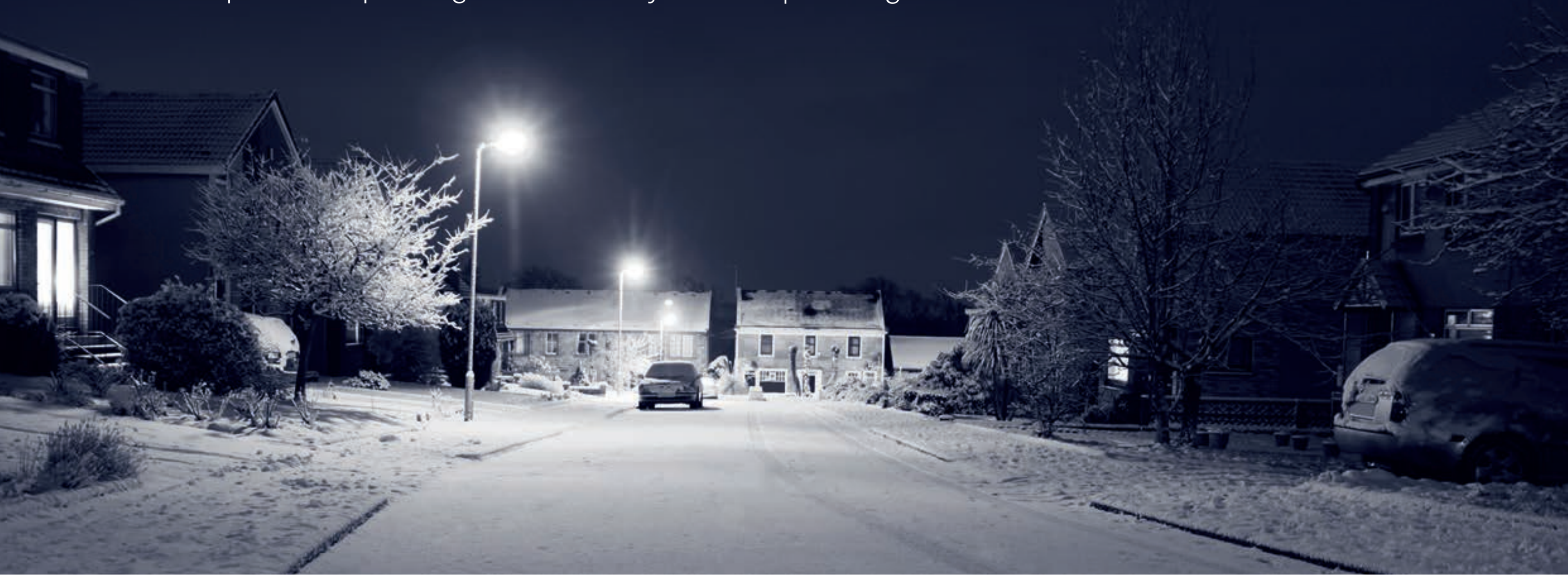
Travel problems

Ensuring your employees can reach service users can be a real headache during the winter months. Icy roads make driving more hazardous, increase journey times and put pressure on staff.

What you can do: promote good car maintenance, suggest employees keep a flask, food, warm clothing and a fully charged mobile phone in the car and make arrangements so that key staff can work from home.

Flood Risk

Time and tide wait for no one, so now is the time to be sure you've taken the necessary precautions to protect your property against flooding. You should also have a damage prevention strategy in place in case your property is flooded, despite your best efforts, so that you know that your business would be able to recover.



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