

Tips for Avoiding Underinsurance

While businesses may be all too aware of the impact of economic pressures on operations, many fail to appreciate the knock-on effect such economic burden is having on insurance coverage.

Specifically, high inflation is increasing the cost of products, materials and labour, making it more expensive to rebuild, repair or replace insured items. This could leave organizations vulnerable if they aren't regularly reviewing policies. In fact, an estimated 25% of Canadian small businesses are currently underinsured, according to professional services firm Deloitte. Unfortunately, underinsurance leaves organizations of all types exposed should disaster strike. The following tips may help organizations avoid the perils of underinsurance:

- **Check rebuilding costs.** Raw material prices rose by 14.8% year on year in May 2022, with lumber and steel prices particularly steep, according to Statistics Canada. Additionally, according to construction industry group BuildForce, more than 250,000 construction workers are expected to leave the workforce by 2029. These and other factors mean that rebuild expenses are now

significantly higher in many cases, making it essential to review sums insured. Organizations may avoid underinsurance pitfalls by scrutinizing the rebuild cost of commercial properties. Better still, a professional valuation should be arranged.

- **Check indemnity periods.** Following catastrophic losses, it's easy to underestimate how long it could take to restart operations and regain usual productivity. Additionally, recent supply chain disruptions may impede repair works following claims. Assessing indemnity periods regularly and extending them as necessary can help cope with potentially disastrous delays.
- **Review policies frequently.** A business rarely remains static; gaining or losing employees, updating processes and adopting new technology all give rise to potential risks. As such, organizations must ensure insurance coverage remains adequate in light of any changes, and any new purchases should be added to policies.
- **Implement a business continuity plan.** Given the uncertain climate, it's essential to prepare for all possible outcomes. Employers should implement a business continuity plan to help identify and plan for emerging risks and spot any gaps in cover.

Underinsurance can leave organizations dangerously exposed following losses. However, by taking the time to make sure policies provide sufficient coverage, organizations can navigate tough times knowing they're covered should the worst happen.

If you have questions specific to your business, or would like additional information, please reach out to your Lloyd Sadd Advisor.

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