



**GLOSSARY OF SOME IMPORTANT  
INSURANCE TERMS  
For  
COMMERCIAL INSURANCE**

**YOU MUST READ THIS DOCUMENT**

**If you fail to take notice of or comply with these  
or other terms on your policy  
it could lead to a claim not being paid in part or all.**

**IF YOU DO NOT UNDERSTAND ANY OF THESE TERMS  
YOU MUST CONTACT US IMMEDIATELY  
FOR FURTHER GUIDANCE**

## Introduction

It is important to note that no insurance policy will cover every eventuality. All Insurance policies include 'small print' which places obligations upon both parties to ensure that the insurance remains valid and operational. At Bloomhill Insurance Solutions, we place a great importance on ensuring that we take your demands and needs into account when providing you with a quotation and recommending the product that's right for you. As part of this, we would highlight the following terms which can often be overlooked but are critical when making sure your policy meets your expectations.

## Changes, Duty of Disclosure & Material Facts

It is important that you understand any information, statements or answers made by you to us, or your insurer, are your responsibility and must be correct.

**Any failure to disclose facts material to the insurer or any inaccuracies in your answers may invalidate your insurance cover in part or in whole.**

Facts material to the insurance are matters or information which may influence your insurer as to the acceptability or otherwise of your proposal or renewal and must be disclosed immediately. You are advised to keep copies of documentation sent to or received from us for your own protection. Please ensure you consult us if you are in doubt as to whether something is material information or not.

**The disclosure of information not only applies at the commencement and renewal of your policy, but also at anytime during the period of insurance.**

Please note that if you fail to disclose any information or change in circumstances to your insurers which could influence the cost of you premium, or their decision to accept your insurance, this could invalidate your insurance cover, and could mean that part or all of a claim may be not be paid.

Your insurances are important. Please keep us informed of all changes to your business, so that we can give you advice on the Insurance aspect of those alterations. A note of the type of matters to be referred is enclosed, which whilst not being exhaustive is intended to be a help. Our aim is to ensure that your risks are properly assessed and protected at all times.

### **Examples:**

- Any history of bad debt of any directors, partners or principals whether as an individual or in a company including IVAs, CVA's etc., County Court Judgements, bankruptcy, administration orders etc
- Criminal convictions (spent or otherwise)
- Any history of censure **AND / OR** investigation by HMRC or other regulatory body
- Acquisitions or disposals
- Changes in process, occupancy, products, materials or operations
- Purchase, construction, development, of new premises.
- Alterations to premises
- Increase or decrease to stock, equipment, contents or any other items insured.
- New contractual liabilities
- Hiring in, borrowing or leasing of plant.
- Alteration or amendment to services including, fire or burglary protective systems or withdrawal of police response services
- Circumstances which require increased liability limits such as exhibitions open days, overseas contracts etc.

**If you have any doubt as to whether a fact should be disclosed, please contact us.**

## Description of Business & Activities

It is important to ensure that your business description and activities are kept up to date at all times. Any new activities or alterations to the existing ones should be advised immediately throughout the life of your insurance policy.

## Warranties, Policy Conditions & Subjectivities

All policies contain warranties, conditions, exclusions, and exceptions. **When a policy is issued, you are strongly advised to read it carefully**, as it will be this document, the schedule and any certificate of insurance which is the basis of the insurance contract you have purchased.

Where specific warranties apply to your insurance, they must be complied with continually AND strictly word for word. Any breach could result in your policy being cancelled by the insurer.

**Remember that the term "WARRANTY" in an insurance policy, is not a benefit**

Equally, certain conditions which are not warranties can have a bearing on the operation of cover. Conditions are most often precedent to liability which means that similar to a warranty, it must be complied with continually. **However a breach of such a condition allows the insurer to avoid a claim where the claim results from the breach in question.**

**Where either warranties or special conditions apply, they are briefly highlighted in the documents we have sent to you; however we do ask that you refer to your policy documentation for full wordings.**

Subjectivity conditions or clauses can also apply to an insurance policy and these can often take the form of actions which must be completed or documents which must be provided to allow cover to continue. Such clauses will carry a deadline upon expiry of which insurers can, at their sole discretion terminate the cover or amend the terms and conditions of the insurance policy.

### **Examples:**

- This policy is subject to a burglar alarm being installed within 30 days of going on cover or no theft cover will apply
- Smoke alarms must be fitted within 30 days of going on cover or there will be an increased fire excess of £50 000
- The policy is subject to a survey being completed within 30 days of going on cover, any requirements being done within 60 days of the survey report being issued, and failure to do the requirements will mean we will come off cover after the 60 days.

**If you do not understand, or have any doubts about how to comply with, any of your policy terms and conditions, please seek our advice immediately and we will explain them to you.**

## Average

The sums insured shown on your insurance schedule and policy are subject to **AVERAGE**.

This means that if you are insured for less than the full value (Underinsured) for any item at the time of a loss, then ANY claim payment may be reduced in accordance with the proportion that the sum insured bears to the full value of the risk. If underinsurance is significant, the insurer can treat this as a misrepresentation of the risk and avoid the policy (cancel from inception) altogether.

As an example, if your buildings are insured for £500,000 but the rebuilding cost of those buildings at the time of the loss is actually £1,000,000, a claim of say £50,000 to repair a damaged part of the building would result in a payment of £25,000. This is most commonly calculated as follows;

$$\text{Value at risk} \times \frac{\text{Insured Value}}{\text{Actual Value}} = \text{Claim to be paid} \quad £50,000 \times \frac{£500,000}{£1,000,000} = £25,000$$

**It is your responsibility to ensure that your sums insured represent the full value of the risk/s you are insuring at the inception and duration of your policy allowing for inflation.** This is important to ensure that you are fully insured in the event of a claim.

**If necessary you should seek professional advice on what a full sum insured should be. We can only advise you how to calculate the sum insured not what the sum insured should be.**

**For further clarification, please contact our office for advice.**

## **Basis of Settlement**

There are four basis of settlement for property insurance. These are detailed below starting with the most common basis;

- **Reinstatement** – This is the most common basis of cover and is often referred to as ‘New for Old’ cover. Settlements of this type are made based upon the cost of replacement or repair without a deduction for wear and tear provided that reinstatement is actually carried out. Where damage rather than total loss occurs, settlement would be for the cost for restoring the damage with new material, again without any deductions for wear and tear provided the full repair takes place. **It is important to note that where this cover is in place, your sums insured must represent the full cost of replacing the item/items as new at the time of the loss or damage.**
- **Indemnity** – Similar to Reinstatement, this cover provides settlement for new replacement costs to replace or repair an item but a deduction is made for wear and tear. The principle of Indemnity cover is to place you in the same financial position after a loss as that which you were in immediately before the loss.
- **Agreed Values** – An uncommon, but occasionally available basis of settlement, Agreed Value can apply to items such as antiques or valuables which may be insured on a ‘selling price’ basis. This value must be agreed (and quantified by valuation or similar) by insurers at the inception of cover and rated accordingly.
- **First Loss** – This can be used to financially restrict cover. For instance where it would be inconceivable that a large risk could lose the entire property or stock by theft, the insurance may be arranged as a total declared value of £1,000,000 but with a first loss limit of £100,000. This would mean that insurers’ liability for any one incident would be restricted to £100,000 maximum regardless of the amount of the loss.

**If you are unsure as to the basis of settlement for your items, please contact us for further advice.**

## **Business Interruption Insurance**

Whilst Property Insurance covers the physical assets of a business (i.e. Buildings, Machinery, Stock etc) Business Interruption Insurance covers the loss of earnings and additional expenses incurred following a loss. Choosing the right Sum Insured and Indemnity period when arranging Business Interruption Insurance is critical as incorrect limits could leave you with a settlement which does not reflect your actual losses should a claim have occurred.

## The Indemnity Period

The Indemnity Period (IP) selected should always represent the **maximum time that can reasonably be anticipated for your business to be financially affected by an insured loss** ie: the period it will take you to get back to the position you would have been at if the loss had not occurred. Industry experts believe that this should rarely be less than 24 months these days, but you may require more. Factors that can impact the length of an indemnity period can include:

- Demolition of existing buildings and site clearance
- "Green" issues
- Re-design, planning permission, tendering for new premises
- The Re-construct itself (most steel comes from China on a largest come first served basis, cranes can take over a year to become available)
- Local bye laws on access are becoming very stringent in built up areas
- Replacement of equipment and specialist machinery
- Replacement of Stock
- Restoration of supplier and customer base to where your business would have been had the loss not occurred

It is important to consider a worst case scenario when deciding on an adequate Indemnity Period to ensure that your Business Interruption Insurance will provide cover until the business reaches the operational level that it would have achieved had it not been for the loss. Business owners can often underestimate the time it can take to recover from a serious incident.

**It is worth remembering that if an indemnity period is too short the insurer closes the cheque book and it tends to be the owners of the business who stump up the cost of finishing the job. That risk can be insured at a relatively small percentage of a 12 months indemnity premium by taking two or even three years to be safe.**

## The Sum Insured – Calculating Gross Profit

For many businesses the basis of the sum insured for Business Interruption will be the annual gross profit figure which represents:

The Annual Turnover, plus closing stock and work in progress, **LESS**  
Opening Stock and work in progress, plus variable expenses

(Variable expenses are those which would reduce or disappear entirely in the event of a stoppage to the business).

Once the accurate Gross Profit figure has been established it must be adjusted upwards to allow for anticipated growth in the business during the period of insurance itself and the Indemnity Period selected, bearing in mind that it is possible for a 'worst case scenario' loss to occur on the last day of insurance.

As an example, if the current Gross Profit figure is £100,000 the period of insurance is 12 months, the indemnity period is 24 months and the business growth is estimated at 10% per annum, the correct Gross Profit sum insured would be **£254,100**. This calculated as follows:

Current Gross Profit = £100,000

Gross Profit during the 12 month period of insurance is £100,000 + 10% = £110,000

Gross Profit during the 1<sup>st</sup> year of the indemnity period is £110,000 + 10% = **£121,000**

Gross Profit during the 2<sup>nd</sup> Year of the indemnity period is £121,000 + 10% = **£133,100**

Gross Profit Sum Insured is **£121,000 + £133,100 = £254,100**

In the event that the Gross Profit sum insured is not calculated correctly, there is likely to be underinsurance and Average would apply to the settlement of any claim. (See information on Average, above)

Other bases of calculating a Business Interruption sum insured, depending upon the type of business include; Gross Rentals, Gross Revenue or Gross Fees.

Cover can be arranged on a Declaration basis which can offset the need for projection, however the selected indemnity period and any exceptional changes to the business must still be taken into account.

We can provide quotations for varying indemnity periods and information on how to calculate the sum insured, **however we cannot accept responsibility for the adequacy of your chosen limits and in some instances you may need to consider the assistance of a suitable professional service.**

#### WARNING

**Remember that Gross profit or "Insurable" profit is not the same as Gross profit in your accounts**

## Claims

All policies contain conditions regarding the notification of claims. It is your responsibility to notify us immediately of all incidents that may result in a claim against your insurance policy. You must do so whether you believe that you are liable or not.

**Any correspondence or claim received by you must be passed to us immediately, without acknowledgement to the sender other than where there is a claim notice under the new MOJ Portal where acknowledgement is required to the communicating solicitor within 24 hours.**

Only by providing prompt notification of incidents can your insurance company take steps to protect your interests. We will provide you with details on who to contact to make a claim when issuing your policy documents.

## Subrogation

With regard to claims, Insurers are entitled to take over any rights which you may have against other parties, with regards to making recoveries to minimise their loss. These rights of recourse are known as Subrogation Rights.

Your policy contains provisions that either exclude the Insurers from Liability, or allow the insurers to reduce their liability, for example, if you have entered into any agreements that exclude your rights to recover damages from another party in relation to any loss, damage or destruction, which would allow you to sustain a claim under your insurance.

Examples of this are the 'hold harmless' clauses which can often be found in contracts. If you are in doubt you should consult with us. **Subrogation law is complex and even if you are underinsured, you may have rights to recover sums not paid by the insurer from the third party.**

**You may prejudice your rights with regard to a claim if, without prior agreement from your insurer, you make any agreement with a third party (such as the above) which will prevent the insurer from recovering the loss from that or another party.**

## Retention of Liability Documents

Successful long tail liability claims, as a result of a gradually operating cause, are no longer unusual e.g. deafness or asbestos related claims can span 20 years or more. **It is important that you retain indefinitely all liability policies both in your name or that of any company with whom you are or have been associated in the past.**

Expired Employers Liability Certificates of Insurance should be retained for a minimum of 10 years to comply with current legislation but we recommend you retain them at least 40 years.

The Employers Liability Trading Office, now retain Employee Reference Numbers (ERN's) for all Employers Liability Insurance placed to ensure that tracing of this type of insurance is easier in the future. You will be asked for and should supply your ERN number when placing this type of cover.

## Insurable Interest and Legal Entities

Only the legal entity that has a legal ownership of property (a chose in possession) or a right (a chose in action) may affect insurance. For general insurance policies, that are not marine insurance policies, that interest must exist at the time of a claim

A legal entity can be a person over age 18 or a legally formed organisation (such as a limited company) which has contractual capacity.

**If both do not exist then there is unlikely to be any insurable interest and the insurer has an ancient right to avoid the policy as if it never existed.**

In layman's terms, a policy will only cover items owned by or the responsibility of, persons or organisations specifically named in the policy document.

## In Summary

This is not an exhaustive list of insurance terms, and if you are unsure about any other terms or conditions, mentioned within your insurance policy, please do not hesitate to contact us immediately, to enable us to explain them to you, so that you fully understand the requirements of your policy.

Equally, if you are still unsure about any of the explanations we have made above, again you should contact us immediately so that we can explain them further, to ensure you fully understand.