

FLOODING INCIDENTS INSURANCE CLAIMS GUIDANCE



INTRODUCTION

Flooding caused by storms and heavy seas can affect many communities and businesses around the UK. Marsh is committed to helping communities recover from natural disasters, and this booklet is the latest edition to our range of advice and guidance on this topic. It provides general guidance as to what to expect if you need to make an insurance claim for flood damage, and the key actions you should take to protect your position. It also highlights some of the potential pitfalls and problems you might encounter, and how to handle them if you don't have an appointed insurance broker to turn to.

The booklet is provided as general guidance for businesses that are not clients of Marsh – if you have your own appointed insurance broker then our overarching advice is that you engage with them as soon as possible for support. They will be able to answer and advise on any specific issues relative to your individual policy cover and claims circumstances, which will extend beyond the general guidance provided by this booklet.

Marsh clients should contact their usual Marsh representative for dedicated support and advice in the event of a flood claim.

WHAT TO DO IF:

YOU DON'T KNOW WHO YOU ARE INSURED WITH

It is possible your insurance records have been destroyed in the flood. If this is the case then it is worth contacting your bank and going through bank statements, as you may be able to trace a record of a premium payment to a particular insurer or insurance broker. If you lease your buildings, your landlord may have asked you for evidence of insurance at some point and so may be able to help you identify your insurer.

YOU DON'T HAVE INSURANCE

Unfortunately, if you haven't taken out insurance to cover your property and business interruption, you will have to meet the costs of repair and replacement yourself. Some of the guidance in this document about mitigating your loss and using specialist companies to repair rather than replace, could be useful to you.

YOU ARE UNDERINSURED

If you have insured for the wrong amount, you may not receive the full value of your loss if you have a claim. This is the case even with a partial loss — if the overall sum insured is inadequate, insurers will apply “average”. This means they will reduce the claim settlement figure in proportion to the level of under-reported insurance value. So you may find you have to bear part of the cost of repair or replacement yourself.

BUILDINGS INSURANCE

You probably either own or lease/rent a building on a full repairing insuring lease. The likelihood is that you have insured it and now want to make a claim. You should advise your insurers of this as soon as reasonably practicable. The insurers may appoint loss adjusters who will try and get to you as soon as possible, but as you might imagine they will be very busy at a time when many businesses and individuals are affected by flooding.

There is an expectation that you will mitigate or lessen the impact of your loss if this is within your power. This means, perhaps, moving items to a higher level and hiring a pump to remove water. Sitting doing nothing may not go down well with your insurers.

If you are concerned the insurers will not believe the damage caused, take lots of photographs or videos and collect any other evidence in support.

If the building has been inundated with water for any time, the damage can be considerable. The water is likely to be contaminated with something that it picks up on the way from the river/canal etc., so do not re-enter the premises until the water has been removed, and ensure you wash thoroughly after handling anything that may be contaminated.

The pressure of water allows ingress to the smallest nooks and crannies which are difficult to dry out. Sub floor areas, electrical conduits, data cableways, and the like all need looking at. Timber that is sodden will eventually dry out, but will go through a period where the moisture content could allow the propagation of dry rot.

Insurers may instruct a specialist company to dry out the building. It is important to note that it will certainly be weeks but probably months before badly flooded premises can be reused. This is where any business interruption insurance you have becomes important (see the later section of this booklet).

If the building is significantly damaged, you should seek to engage a building surveyor to act for you. You should ask your insurer to confirm they will pay for this as a claim under the “professional fees” clause in your policy.

BUILDINGS INSURANCE (CONTINUED)

It is important to remember that, although possibly paid for by insurers, the surveyor is working for you. The surveyor's job is to establish the extent of damage and stipulate the necessary repairs, and also to engage in a process where contractors will quote for repair of the damage. The process should satisfy insurers that they are not paying too much, and the surveyor should supervise the work to satisfactory completion.

Bear in mind that if you want to claim on a “reinstatement as new” basis you actually have to spend the money on repairs to the buildings – insurers will not give you the cash without evidence of repairs having taken place.


MACHINERY AND PLANT INSURANCE

It may be possible to restore your machinery to full working order, or it may have to be replaced. Check whether you have insured your machinery and plant for the full replacement cost, so you know what your financial position is if it is found to be beyond repair.

With floods, early intervention by one of the specialist restoration companies can pay huge dividends in bringing machinery back into use and limiting the period of down time for your business – some machinery can take nine months or more to replace, so repair can be a better option.

If your employees maintain your machinery and have the necessary skills to undertake the restoration work, you may be able to recover the cost of their labour as part of the claim. However, insurers may try to recover this under any associated business interruption claim you make, as they will argue they are paying for labour twice.

Sometimes getting an exact replacement is difficult and your insurers will offer something altogether more sophisticated with more capacity. If this is the only alternative, you may be asked for a contribution by your insurer.



GENERAL CONTENTS INSURANCE

Again, hopefully you have desks, tables, chairs, shelving, tills, computers etc. insured on a replacement cost basis. If this is the case then the basis of the claim settlement should be replacement value, or, if not replaced, the replacement value less wear and tear and depreciation.

The insurer will expect you to demonstrate that you owned all the equipment you claim for, and its cost of repair (if repair is possible) or replacement (if totally destroyed).

In terms of replacement, if the currently available item is the functional equivalent of the one lost and you have chosen an adequate sum insured for your contents, you should have no problem with your claim.

You may not want to buy new contents until your buildings are repaired, but do your research now to make sure the contents are available fairly quickly. If there is a long lead time to obtain a replacement for a particular business critical item that would delay the reopening of your business, order it now – insurers will not be pleased if its absence prolongs your business interruption claim.

STOCK IN TRADE INSURANCE

Insurance cover for stock in trade is indemnity, meaning that insurers will assess the value taking into account:

- The acquisition cost.
- The date of acquisition.
- Due allowance for depreciation.
- Due allowance for slow moving stock.
- Due allowance for shrinkage.

For manufacturer's stock, the insurance value is the cost of remanufacture, i.e. the cost of raw materials and variable cost of remanufacture.

The cost of delivery and even labelling and getting stock back onto shelves is in theory claimable.

You will be expected to show that you have some form of stock control system, and that what is lost or damaged is supported by records and invoices.

BUSINESS INTERRUPTION INSURANCE

If you have this insurance, it is designed to cover loss of gross profit or loss of revenue consequent upon interruption to the business caused by physical damage or denial of access to your premises.

This is where it is necessary to imagine what the results of the business would have been BUT FOR the damage. There is no absolute correct answer because there are so many variables in business, so this is an area of claim where good presentation and logical arguments can pay dividends.

The policy normally stipulates that the period in the prior year corresponding with the interruption period be used as the base line for the claim. If you are a corner shop and your trading creeps up 2% per year, then that is a reasonable starting point, but if you are experiencing exponential growth you have to explain and prove why that benchmark gross profit from the previous year needs serious adjusting.

The indemnity period is the period during which the results of the business are affected by the damage. If after repairs you have lost custom to a competitor and your normal customers do not come back, you can claim this on-going loss.

Having said this, if you suffer limited damage and nobody is coming to your area for fear of flood or because of widespread damage, your insurers may not entertain your full claim.

As an alternative to loss of gross profit your insurers will usually pay for “increase in cost of working” — for example:

- Renting somewhere short term to allow work to carry on.
- Hiring in a machine while your own is being repaired.
- Paying overtime to employees to catch up lost production.

Provided these measures help to avoid loss of gross profit or revenue and they are economically incurred (they usually are), insurers would rather pay increase costs than actual loss of gross profit.



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