Spring 2025

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Covernotes

Explaining issues that affect insurance

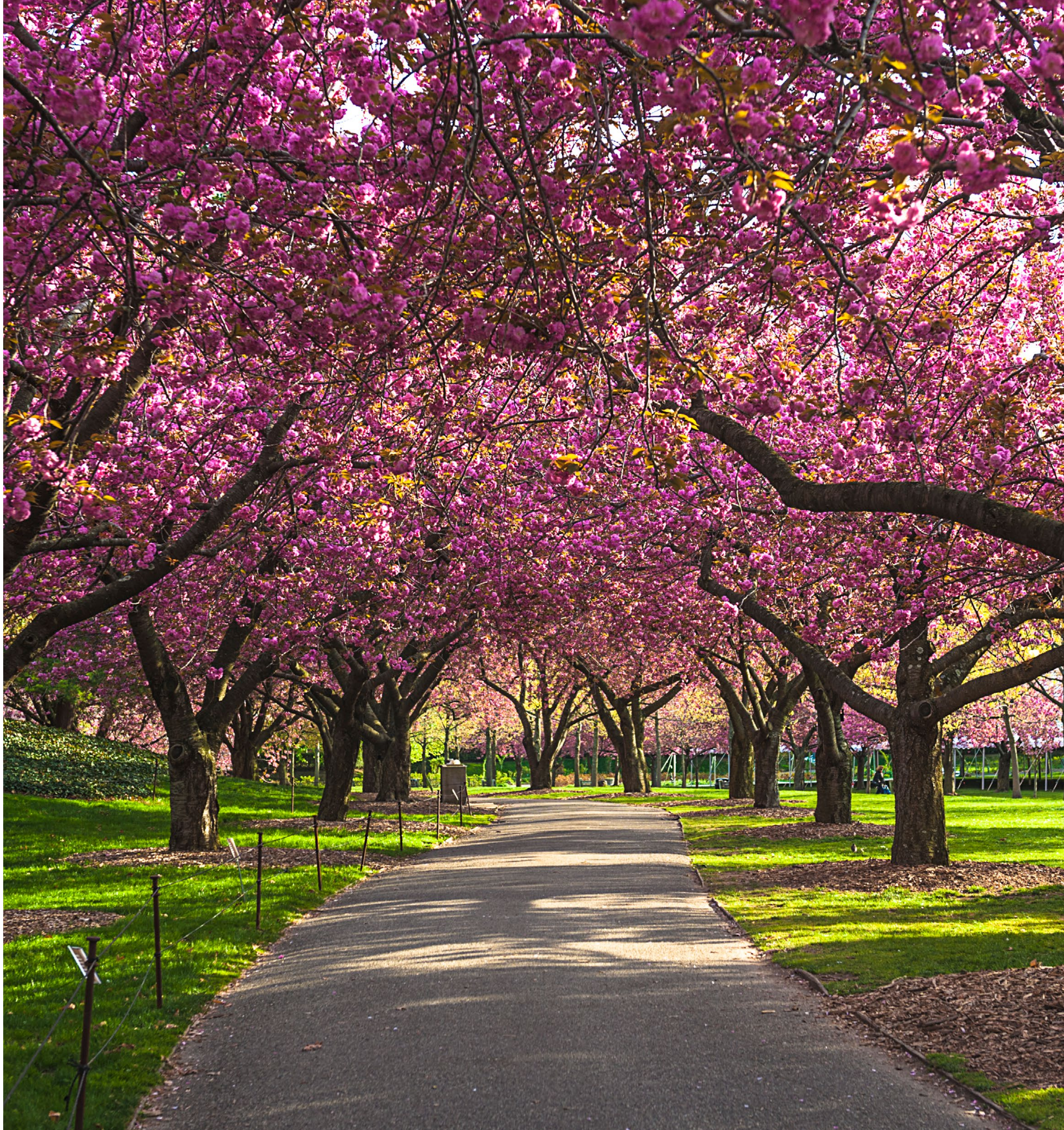

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Figure it out to avoid floods of tears

Thousands of UK homeowners have not figured out what their possessions are actually worth, leaving them typically either underinsured or overinsured. In fact, only one in every ten homeowner properties is likely to be insured for the right figure.[1]

The degree of underinsurance can vary and wealthy individuals, owning large homes and expensive items such as jewellery, artworks, antiques, expensive watches, designer handbags, costly clothing collections and other assets such as wine or whisky cellars, are particularly at risk. In fact, they are a major worry for insurance brokers. 23% of insurance brokers actually feel all High-Net-Worth individuals are underinsured.[2]

[1] https://www.rebuildcostassessment.com/post/annual-infographic-2024
[2] https://www.insurancebusinessmag.com/uk/news/property-insurance/underinsurance-is-a-pressing-concern-new-survey-497247.aspx

Why does underinsurance exist?

The reasons for such underinsurance (defined as the gap between the declared value of possessions when taking out insurance or renewing a policy, and the real value of those items) are numerous.

Often, it is down to the homeowner not having accurately calculated the value of what they own. This could be because they have never carried out a systematic audit of possessions or room-by-room tot-up. It might be that they have not commissioned regular valuations of jewellery, watches or other precious items and that original expert valuations are now vastly out-of-date.

Sometimes, it is because a homeowner does not proactively raise their insurance limits, to keep premiums stable. Others have created gaps in coverage because they have not had an expert insurance broker guide them through the process. They have simply ticked boxes on an online insurance sales form, buying a standard home insurance policy and being unaware of clauses and exclusions that impact their luxury portfolio.

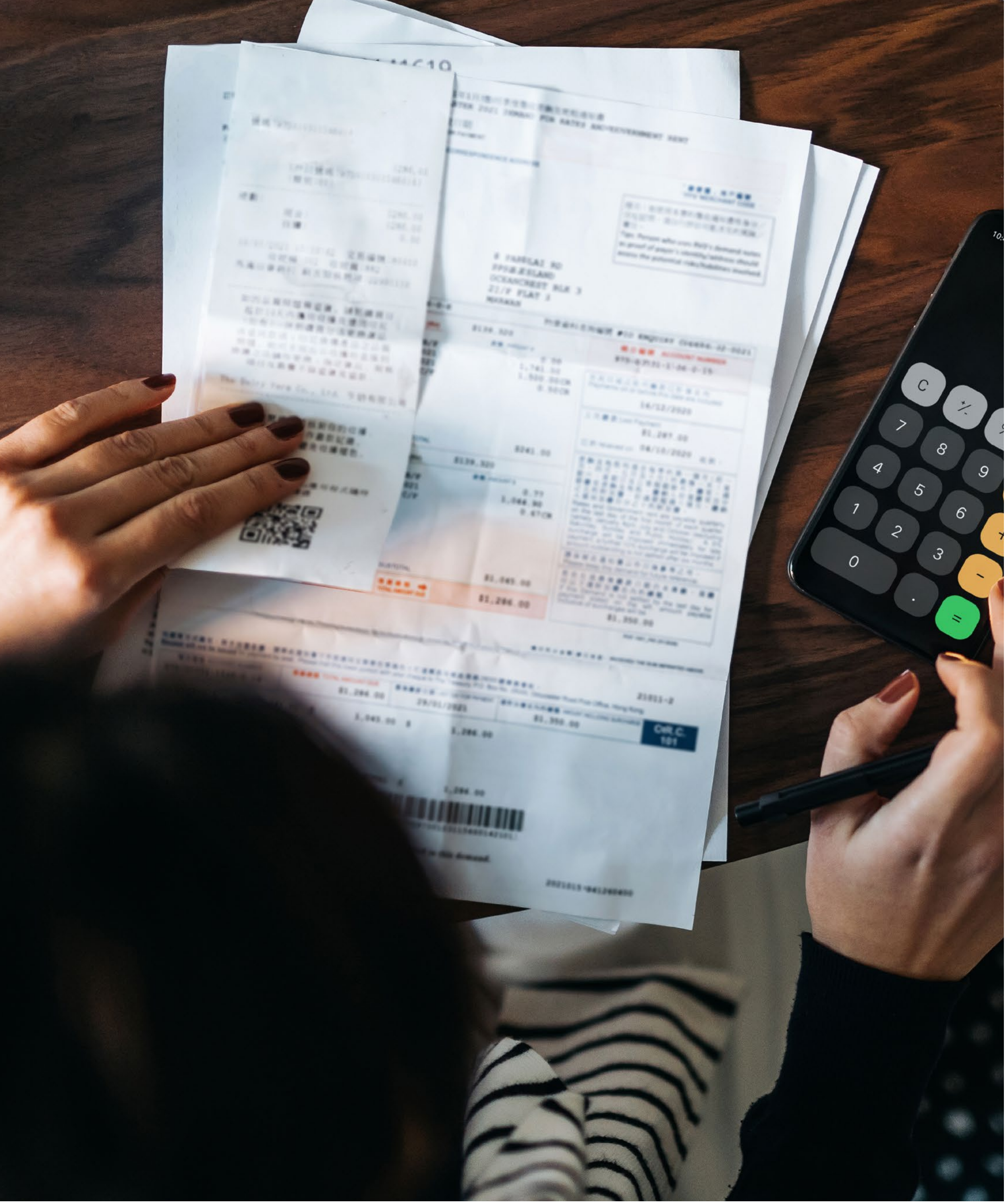
Some can be caught out by single item limits that exceed the actual value of an item they own. A much larger proportion of those caught out by underinsurance at the present time, however, have not kept an eye on economic trends.

Many homeowners have based their sum insured on their home's market value rather than the cost of rebuilding it, in the event of a major incident occur. If a storm caused significant damage, the home might need to be rebuilt from the ground up, including architects' fees, labour, contractors, and rubble removal. New materials would also need to be purchased.

All these factors add to the homeowner's original market value, and it is this larger figure that should be the sum insured on the policy. Experienced brokers advise clients that valuations not accurately factoring in all of these costs are damaging. Similarly, valuations of possessions that are five or even three years old do not reflect current market prices for items such as jewellery and watches. Pockets of underinsurance can emerge throughout a possessions audit.

Any home insurance claim, regardless of size, would be impacted, if the insurer discovers underinsurance. Even if the amount claimed is well below the overall declared sum insured, the payout will be reduced by the degree of underinsurance. For example, if your sum insured is only 70% of the actual value of your home, you would only receive a 70% payout of any insurance claim.

If the insurer believes you have deliberately manipulated figures to lower a premium, they have the right to cancel the policy and pay out nothing.



Weather risks that expose underinsurance

The most likely situation that could catch you out, if in this position, is flooding. Latest Government figures suggest 6.3 million homes face a flood risk.[3] Homeowners focused on purely river or sea flooding should beware. There are almost twice as many homes with a risk of surface water flooding (4.6 million) as there are homes at risk of marine or river flooding (2.4 million).[3a]

Between April 2023 and March 2024 alone, the UK experienced 13 named storms, Storms Babet, Ciarán, and Henk issued 750 flood warnings (5 severe)[3b], there is much to consider, even before considering summer flash floods, with their random nature. Anyone, anywhere, can suffer a property catastrophe that exposes their underinsured status and inability to replace lost items.

How to tackle an underinsurance or over-insured situation

If you have little or no idea what your home's rebuild cost would be or what the value of your possessions is, it's time to take action. You can start by walking around each room and noting the value of all you would need to replace, from carpets and furnishings to fixtures, clothing, electrical items and leisure equipment.

Assessing a ballpark rebuild figure for your home can be done by using a service such as the Building Cost Information Service (BCIS), but a preferable route to follow, particularly for High-Net-Worth homeowners, involves working with a broker. Complex situations regarding covering possessions can be fully discussed and the best insurance strategy determined. Specific items can be given their own insurance protection and any 'grouping' of valuables, which is leaving you exposed to losses, can be rectified.

A broker can also help you commission a specialist rebuild cost survey, tailored to your individual property alone. This will identify any underinsurance but could save you money by highlighting over-insurance.

The risks of having underinsured homes and possessions are significant, so do not turn a blind eye to it. Thinking a disaster will 'never happen to you' is becoming increasingly unsound reasoning in an age of climate change. Take stock of your situation and figure your sums out today by getting in touch with a broker who can assess the unique risks associated with your assets and recommend bespoke policies tailored to your needs. If not, you could experience significant losses.

[3] https://www.gov.uk/government/publications/national-assessment-of-flood-and-coastal-erosion-risk-in-england-2024/national-assessment-of-flood-and-coastal-erosion-risk-in-england-2024 (section 1.3)
[3a] https://www.gov.uk/government/publications/national-assessment-of-flood-and-coastal-erosion-risk-in england-2024/national-assessment-of-flood-and-coastal-erosion-risk-in-england-2024 (section 1.5)
[3b] https://www.gov.uk/government/publications/national-assessment-of-flood-and-coastal-erosion-risk-in-england-2024/national-assessment-of-flood-and-coastal-erosion-risk-in-england-2024 (section 2)

Reputation rules, so protect it well

Business survival and reputation management are inextricably linked. A 2020 survey found that 63% of executives believe reputation defines their business's market value.[1] So how much store do you place behind your own business's reputation?

In the past 20 years, it has become ever-more important to safeguard reputation. As the Harvard Business Review noted in 2007, "In an economy where 70% to 80% of market value comes from hard-to-assess intangible assets such as brand equity, intellectual capital, and goodwill, organisations are especially vulnerable to anything that damages their reputation."[2]

Since then, the rise of social media has made reputation management even more problematic. Anyone can voice an opinion in seconds. The trick is to avoid a situation arising, monitor the online mood through social listening, and contain the conversation.

Hospitality is a sector particularly subjected to this more modern risk. A food and drink operator can suffer a calamitous collapse in business following negative publicity. This could be due to unsafe foods, lack of allergy controls, unhygienic kitchens and poor inspection ratings, or failure to comply with health and safety legislation.

It could relate to harassment, discrimination or poor treatment of employees. Customers could suffer harm through a slip or trip, an electrical fault, a failure to maintain healthy hot water systems, or swimming pool attendant negligence. The possibilities are numerous.

Then there are threats such as assailant attacks, often focused on hospitality outlets and quickly leading to a loss of attraction for the venue at the centre of the storm.

To reduce the risks, it is vital to have robust policies and practices in place and to embed health and safety practice, as well as respect for all individuals, within company culture. Ensuring that training is thorough is of paramount importance, as are channels through which employees can voice concerns or raise observations.

Having a written crisis management policy is also hugely important, so there is a set pathway for crisis handling, with all measures geared at damage limitation. Knowing an insurance policy will provide access to crisis management specialists, if required, can also offer reassurance. Having insurance in the locker makes sense.

According to your business and its size and scope, it may also be beneficial to talk to a broker about services such as Reputational Risk Benchmarking, which assesses resilience to future crisis-related events. Such services, available through brokers, help prevent incidents before they occur, by highlighting where loopholes may exist.

Suffering a hit to reputation through a cyber-related scenario, such as hacking, is a very real 21st century risk and one that should also be addressed through good practice and the back-up of a standalone cyber insurance policy.

Here again, having access to specialists, should cover need to be triggered, can mean the difference between extensive reputational damage, downtime and loss of trade, and a swift IT rectification exercise that can contain the situation and impact customers as little as possible.

Considering what could impact your reputation is the starting point for better business protection. Work through the possibilities with a broker and you will appreciate how strong risk management, supplemented by the right insurance covers, can provide essential layers of protection that can help your business survive even the trickiest of adverse situations.

[1] https://webershandwick.co.uk/wp-content/uploads/2024/01/State-of-Corporate-Reputation_FINAL-presentation-13.01.20_BRITISH-ENGLISH.pdf
[2] https://hbr.org/2007/02/reputation-and-its-risks

The risks associated with ESG strategies

The move to 'green' businesses is increasingly being driven by a desire to improve ESG (Environmental, Social and Governance) performance –– a business practice standard increasingly important for corporate reputation.

The British Business Bank says ESG measures a business's impact on society and the environment, whilst also demonstrating its transparency and accountability.[1] Businesses falling short of expectations could face both reputational damage and potential legal action.

ESG standards span many different areas, from business ethics and competitive behaviours to waste and energy management strategies. One ESG area presenting a real risk to businesses is data privacy. Securing customer data against cyber-attacks and data breaches is a central tenet of strong ESG performance.

Many insurers are championing ESG and launching new insurance products that support the adoption of green-friendly products and services. This is assisting with the greening of fleets, solar panel adoption, an uplift in timber-framed properties, the use of modular construction methods and utilisation of battery energy storage systems.

Therein lies a dilemma because green technologies can often significantly alter the core business risk profile, introducing new risk management considerations that clients may struggle to appreciate.

The widespread use of lithium-ion batteries within gadgets, electronic equipment, and vehicles including buggies, mobility scooters, e-bikes, and e-scooters, is problematic. These batteries are prevalent in warehousing and distribution, being used within hand-held barcode scanners. Within manufacturing businesses, they can be found in plant, machinery, and hand tools. Anything that contains a lithium-ion battery, particularly of a prismatic or pouch cell type, presents a new vulnerability.

Between 2017 and 2022, the use of lithium-ion Battery Energy Storage Systems (BESS) doubled in the UK.[2] The plus side is that these systems stabilise the National Grid by storing excess energy from renewable sources in periods of low demand, before releasing it in response to high demand. The growth of solar and wind-power-driven energy systems is somewhat dependent on having such storage and distribution technology available.

The major risk with regard to lithium-ion batteries, however, is fire, with these batteries igniting extremely quickly, if overheated, overcharged, over-discharged, damaged or defective from the outset. Thermal runaway makes the fires extremely hot, dangerous, and unpredictable.

There was a 53% increase in lithium-ion related fires in 2023 and, in London alone, 150 e-bike and 28 e-scooter fire incidents. Between 2020 and May 2024[3], there were eight fatalities and 190 recorded injuries from lithium-ion fires – fires which should not be tackled by anyone other than the Fire and Rescue services.

Any business operating equipment reliant on these batteries needs a risk management plan that details procedures relating to battery care and management. Employees need to be alert and report visible defects or concerns, with inspection commencing on battery arrival and continuing thereafter. Charging should only be done under supervision, using approved chargers. Damaged batteries should be quarantined immediately.

Attention needs to be paid to the Dangerous Substances and Explosive Atmospheres Regulations (DSEAR) 2002.[4] Heed needs to be paid to battery storage as it is a legal requirement to put control or preventative measures in place to safeguard employees.[5] Battery handling should only be carried out in well-ventilated areas and storage should be in dry, cool zones, suitably located, from a safety perspective, and free of flammable or combustible substances.[6]

Other measures and policies are required. Charging should never take place where it blocks a fire exit or impacts a communal area. The Fire and Rescue service needs to know precisely where batteries are stored or used and be fully briefed on access and exit routes. A robust fire risk assessment covering handling, storage, use, and charging of these batteries is essential.

With strong ESG performance now the goal for many businesses, it is inevitable technologies such as lithium-ion batteries will be incorporated into day-to-day work tasks. The skill of an insurance broker lies in analysing the new risks associated with greener technologies and ensuring clients' businesses remain risk-aware and protected. To tap into this skill, contact us today.

[1] https://www.british-business-bank.co.uk/business-guidance/guidance-articles/sustainability/what-is-esg-a-guide-for-smaller-businesses
[2] https://researchbriefings.files.parliament.uk/documents/CBP-7621/CBP-7621.pdf (page 13 graph)
[3] https://www.allianz.co.uk/news-and-insight/insight-and-expertise/how-to-reduce-the-risk-of-e-bike-and-e-scooter-fires.
[4] https://www.legislation.gov.uk/uksi/2002/2776/contents
[5] https://www.hse.gov.uk/fireandexplosion/dsear-background.htm
[6] https://www.legislation.gov.uk/uksi/2002/2776

Be vocal about 'silent killer' risks

Carbon monoxide poisoning is a health and safety risk that can easily slip under the radar due to the silent, odourless, often undetected threat posed by this hazard.

People lose their lives to carbon monoxide poisoning and around 4,000 people a year need emergency medical treatment.[1] This is often due to poorly installed or maintained gas appliances in which the correct combustion process is impossible.

The Smoke and Carbon Monoxide Alarm (Amendment) Regulations of 2022 heightened awareness of the dangers, but there is still much to be done within commercial settings.

Under Control of Substances Hazardous to Health (COSHH) Regulations[2], employers must implement control measures to protect workers from hazardous substances, with this including carbon monoxide. They should also assess who is at risk and plan and organise the workplace to mitigate the risk. Following the Assess, Control and Review model is what the Health and Safety Executive advises.[3] Staying silent and not briefing employees about the risk is not an option.

While it is easy to associate carbon monoxide with gas appliances, or with the use of barbecues indoors or under canvas, there are other workplace sources.[4] This includes petrol-powered or LPG-fuelled equipment used within enclosed spaces, including excavation trenches. Those refurbishing existing buildings and disrupting gas flues and ventilation systems can also face the risk.

LPG equipment should only be used where there is adequate, unblocked ventilation, and petrol generators only operated in well-ventilated outdoor spaces where the gas cannot drift indoors.

Indoor LPG-fuelled cookers, heaters and work equipment all need close monitoring. In general, vents and ducts that carry fumes away from a fuel source require regular inspection.

Employees should also be on the lookout for the very few signs that might signal an issue: a pilot light frequently blowing out; increased condensation on windows, yellow/orange rather than blue flames, and soot or possible yellow/brown staining around appliances. Ensuring carbon monoxide alarms are working correctly, and in accordance with the manufacturer's instructions, is vital and alarms should meet BS Kitemark or EN 50291 standards.

Failure to manage and control the carbon monoxide risk can lead to severe penalties and potentially corporate or individual manslaughter charges. Imprisonment, fines and reputational damage can all be the outcome. Incidents can easily result in loss of business and public and employee trust.

For these reasons, it is crucial to incorporate carbon monoxide risks into any risk assessment and work to mitigate the hazards posed. Referencing standards like ISO 45001 can outline areas for improvement within management systems. Ensuring IOSH (Institution of Occupational Safety and Health) Managing Safely course standards[5] are implemented is important. Creating a whole culture focused around safety will help all employees look for any signs of danger.

Staying compliant is important from an insurance perspective too, as policies might not pay out if measures to control the risk were not taken.

A Commercial Business policy will provide assistance with legal defence costs should the HSE (Health & Safety Executive), instigate an investigation and possible proceedings. However, if a fine is issued this will not be covered and could be costly for any company.

A property policy will cover the costs associated with any damage caused by carbon monoxide, a resultant fire or explosion for example. Business Interruption costs may also fall for consideration under the Denial of Access extension of an insurance policy. In all cases, however, the insurer would expect to see that reasonable precautions to control the risk were implemented.

Public and Employers' Liability policies provide indemnity if it is alleged/proven that a company has been negligent for illness suffered by employees or members of the public. Unfortunately, carbon monoxide poisoning can be fatal, resulting in damages being paid to the family in excess of six figures.

The golden rule is to plan for carbon monoxide, even if you cannot smell, taste, or see it. Do that and you will be tackling one of the most dangerous silent risks in the workplace.

[1] https://humanfocus.co.uk/blog/preventing-carbon-monoxide-poisoning-in-workplaces/
[2] https://www.hse.gov.uk/coshh/
[3] https://www.hse.gov.uk/construction/healthrisks/hazardous-substances/carbon-monoxide.htm
[4] https://www.gov.uk/government/publications/carbon-monoxide-properties-incident-management-and-toxicology/carbon-monoxide-general-information
[5] https://iosh.com/qualifications-and-courses/courses/managing-safely

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FPS8508658 WTW-1572765732/02/25