

SME Business Insights

The Causes and Consequences of Underinsurance



Provided by: MacKay Corporate Insurance Brokers

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Robust insurance cover is a cornerstone of effective risk management for small- and medium-sized enterprises (SMEs). A single uninsured event—such as a fire, flood, cyber-attack or critical equipment failure—can cause severe financial disruption, halt operations and, in some cases, threaten long-term viability. Yet, despite these risks, underinsurance remains a frequently overlooked vulnerability. Whether due to outdated valuations or cost-cutting decisions, carrying insufficient insurance cover can leave SMEs dangerously exposed when a claim arises.

Common Causes of Underinsurance

Several factors contribute to underinsurance in SMEs, including the following:

- **Outdated property valuations**—SME business owners may overlook the need to regularly update the value of their buildings, equipment or inventory, resulting in cover limits that no longer reflect current replacement costs.
- **Business growth without policy updates**—SME business owners may add staff, locations or assets without adjusting their insurance cover, leaving new exposures unprotected and increasing the risk of uncovered losses.
- **Misunderstanding policy terms**—SME business owners may misinterpret complex policy language, leading to incorrect assumptions about what is covered, when cover applies and how indemnity limits are structured.

Many SMEs only discover they're underinsured when a claim arises. Having the right cover in place can be the difference between a temporary disruption and permanent closure.



- **Focusing solely on premiums**—SME business owners may focus on minimising insurance costs without considering the implications of reduced cover limits, broader exclusions or how higher excesses compromise cover.
- **Neglecting emerging risks**—SME business owners may fail to account for new threats such as cyber-attacks, climate-related events or supply chain disruptions that may not be covered under standard policies.

The Consequences of Being Underinsured

The financial and operational consequences of underinsurance can be significant. SMEs may face:

- **Partial or denied claims**—Insurance may not fully cover the cost of losses if cover limits are too low or exclusions apply, leaving the business responsible for the uncovered portion.
- **Prolonged downtime**—Without adequate business interruption cover, a business may struggle to meet ongoing expenses during recovery, increasing the risk of sustained operational disruption or permanent closure.
- **Legal and regulatory exposure**—Insufficient liability insurance can leave businesses vulnerable to legal claims and regulatory penalties, particularly in sectors subject to strict compliance requirements.
- **Reputational damage**—Delays in service or failure to meet obligations due to uninsured losses can erode customer trust and harm long-term relationships.

Strategies to Avoid Underinsurance

To minimise the risk of underinsurance, SME business owners should routinely reassess their insurance cover, particularly after operational changes such as expansion, new hires or equipment upgrades. Obtaining professional appraisals of property and assets is also essential, especially during periods of inflation or supply chain volatility. Additionally, SMEs should evaluate whether their existing policies account for emerging risks like cyber-threats, climate-related events or evolving liability exposures.

Work With a Knowledgeable Insurance Broker

SME business owners should carefully examine policy terms and understand any exclusions to reduce the risk of insurance shortfalls. Working with a knowledgeable broker can help uncover overlooked insurance gaps and ensure that cover closely aligns with the SME's current operations, assets and evolving risk landscape.

Underinsurance can expose SMEs to significant financial, operational and regulatory risks. Regular policy reviews are a critical component of sound business management.

Contact us today to review your insurance cover.

