Navigating the Never-Normal

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The Blackford guide to protecting your business while everything changes.

It almost feels a bit pointless to say the world is changing. It always does, and unpredictability is just part of business. But it's been a long time since change, unpredictability, risk and threats felt quite so all-encompassing. Take your pick. War? Price inflation? Talent? Energy crises? Political flux? In 2022, finding the bright spots can feel quite difficult.

Proper risk management is more important than ever in times like these. Hunkering down and hoping for the best might be tempting, but businesses which plan properly and invest in resilience tend to be those with the ability to ride out the storm and emerge in good shape.

What's abundantly clear is that 'normal' doesn't really exist at the moment. We've moved from the 'new normal' to the 'never-normal'.

We know that understanding some of the subtleties of insurance isn't at the top of many to-do lists, so we've created this short guide to some specifics which could mean the difference between an effective safety net and a hard landing. We've tried to make this as clear and concise as possible, with clear definitions of some of the more technical insurance terms and – crucially – what they mean for your business. As always, we're very happy to help if you have any specific questions.

What this guide covers.

1 Inflation shocks

Business assets like property and other things increase in value over time, especially when inflation is running high. If you never increase your insurance to reflect this, you could be left with a chunky shortfall if you have to make a claim.

2 How much insurance is enough?

Insuring for the right value is crucial. But some insurers will give you the benefit of the doubt if they can see you've tried to get it right. They're sometimes quite reasonable, you know.

3 Repairing and rebuilding

An added extra to (almost) inflation-proof your insurance policy.

4 The cost and the value of insurance

No-one likes paying for insurance, but a few hundred pounds now could save hundreds of thousands later.

5 Business continuity reality check

Getting back on your feet can take longer than you think – if you make assumptions you can't be sure they'll work out when it comes to the crunch. Make sure you don't leave yourself short.

6 Indemnity periods – how long do you need?

We touched on indemnity periods before, but how much does it cost to give yourself more breathing space – and is it worth it?

Inflation shocks

In a nutshell:

Business assets like property and other things increase in value over time, especially when inflation is running high. If you never increase your insurance to reflect this, you could be left with a chunky shortfall if you have to make a claim.

Maybe you're reading this in 2026 when inflation is low, interest rates are steady, and the energy markets are calm and peaceful. But we bet you can remember mid-2022, when the Bank of England was predicting end-of-days inflation rates, workplace talent was at an eye-watering premium, a calamitous war was raging in Ukraine and simmering in the South China Sea, and the price of everything seemed out of control.

Inflation Shocks (cont.)

You might even remember a friend who, post-pandemic, got a home extension quote for £50,000. Having mulled it over for a year or so, your friend received an updated quote for the same work, which then came in at £90,000.

If the cost of a home extension has skyrocketed, then you can be assured the bill for a commercial rebuild or repair will be just as alarming.

It's so easy to be caught out like this.
The good news it's also easy to pre-empt and mitigate.

Let's say your office building was originally insured for £1,000,000. Every so often over the years you've increased this by index linking, so the sum insured is now £1,250,000.

You're not quite sure how you arrived at the original figure of £1,000,000, but it's been 10 years since the last professional valuation was carried out. So if it burns to the ground how do you know that the insurer will pay out in full? The first step is to book a professional valuation, which often isn't as expensive as you might think.

Inflation Shocks (cont.)

You must make sure the valuation specifically details a 'reinstatement value' (as opposed to market value), which is what insurance policies are designed to cover. If you are confident that you know it is up to date, then does it need adjusted? Index linking in June 2022 was 11.9%. That £1,250,000 should now be £1,398,750 and is only likely to increase.

This equation applies equally to machinery, stock and many other assets, so think carefully about what you need to include in your valuation – and make sure you revisit your values at least every five years – but preferably three.

Three things to do now:

1. Consider which assets need to be valued or revalued.
2. Organise a valuation and discuss with your broker.
3. Schedule to repeat the exercise in three years.

How much insurance is enough?

In a nutshell:

Insuring for the right value is crucial. But some insurers will give you the benefit of the doubt if they can see you've tried to get it right. They're sometimes quite reasonable, you know.

Some commercial insurance policies provide full cover in the event of a loss if your sum insured is at least 85% of the actual value at risk at the time you have to rebuild or repair. Insurers often refer to it as the "Condition of Average". We'll use buildings as an example again. If the value is £1m but you insure your building for £870,000 (87% of the true value) and it burns down, then you should receive up to £1m. Contrary to popular belief, insurers want to be fair and reasonable and will recognise you're not far off what the figure should be.

How much insurance is enough? (cont.)

If, however, you insure the building for £800,000 (80% of the true value) when it would cost £1m to reinstate, and THEN it burnt down, you would only have 80% of your loss paid. The insurers would argue you haven't adequately set the 'sum insured to reinstate', so you have to shoulder the burden of the deficit. In this example, the insurer would pay the £800,000 for reinstatement, but you'd need to find £200,000 to make up the difference. The only other option you will have will be to build something smaller.

This is why having your policy tucked away in a drawer isn't a good move. You need to understand what it actually says and what will happen if you need it.

Three things to do now:

1. Check if your policy has a "Condition of Average".
2. Make sure your sum insured accurately reflects the cost to reinstate your property.
3. Use your desk drawers for your chocolate stash instead.

Repairing and rebuilding

In a nutshell:

An added extra to (almost) inflation-proof your insurance policy

If your insurance broker mentions 'Day One Reinstatement', confidently reply: "Ah yes, that's an extension which can be added to most commercial insurance policies but isn't standard. Isn't that right?"

This extension of cover is all about inflation and the cost to repair or rebuild something. Having lived in a low inflation economy for years, it's not something which has been a big issue until recently. Well, Day One Reinstatement, it's your time to shine.

Repairing and rebuilding (cont.)

The insurer provides extra cover, usually between 10-50%. Let's say your building goes on fire, and cost of rebuilding increases from the date cover was effected (ie 'Day One') until it is repaired or rebuilt. The policy extension means the extra cost is covered by your insurer. When a sheet of plaster increases from £10 to £15 in just three months (a real example) you can see why this extension is so important to have. In reality the extra premium payment is very small – a 50% uplift in cover might only cost an extra 5-10%, depending on individual circumstances.

Bear in mind that cheap foreign labour, a robust supply chain, an available builder, stable pricing on materials and availability of materials are now things of the past. That makes these extensions basically an essential in today's economy.

Three things to do now:

1. Think carefully about how the cost to repair or reinstate an important business asset might increase in the next two years.
2. Speak to your broker about a Day One extension and what kind of percentage might be suitable.
3. Work out the riskiest links in the reinstatement chain – eg available builders, manufacturing lead-in, stock availability etc.

The cost and the value of insurance

In a nutshell:

No-one likes paying for insurance, but a few hundred pounds now could save hundreds of thousands later.

Insurance is one of these things everyone resents when things are buzzing along nicely. But if you have a factory or site with a key piece of machinery, what will happen to your income if that kit one day goes 'bang'?

Having had one of your engineers inspect it, the machinery in question can't be repaired and needs to be replaced. You bought it three years ago at auction for £250,000. But when you go back to auction houses and websites, there's no adequate replacement available.

The cost and value of insurance (cont.)

Luckily, the manufacturer is more than happy to take your order for a new one – and for just £600,000. Ouch. You now need to find £350,000 to meet the difference between what you paid and insured it for (£250,000) and the £600,000 showroom-fresh model.

Depending on your risk, the difference in premium between a £250k and £600k sum insured might be only £900. Clearly it's much better to pay this than having to fund the £350,000 shortfall. Machinery can also be covered in Condition of Average and Day One Reinstatement policies, so make sure to speak to your broker about this.

Three things to do now:

1. Look into the feasibility of replacing or repairing your key equipment and machinery.
2. Talk to your broker about the premium impact of insuring any shortfalls.
3. Find out how you can take advantage of relevant policy extensions.

Business continuity reality check

In a nutshell:

Getting back on your feet can take longer than you think – if you make assumptions you can't be sure they'll work out when it comes to the crunch. Make sure you don't leave yourself short.

It's possibly human nature, but in our experience most people are too optimistic about how quickly they can get back up and running after a major loss in their business.

Quite often, we hear things like:

I know someone at the council who'll get me through planning quickly.

My mate's a builder / fitter / engineer, they'll see me alright.

I have a reciprocal agreement with a friendly competitor so I've got a foolproof backup.

Business continuity reality check (cont.)

Unfortunately, we've also heard:

There's a year-long backlog in council planning applications, they're clamping down on queue jumping.

My mate is rammed for the next 18 months and can't fit me in.

My competitor ran out of cash because of inflation and went bust last month.

Most businesses have 12 months indemnity, which means that from the date of the loss you have 12 months until the insurance payments stop. The idea is that you will be back to the same financial and trading position 12 months after the loss. We know of a restaurant which burnt down and 12 months later was still a blackened shell surrounded by temporary fencing. By the time it gets rebuilt and back trading it will probably be three years to get back to where they were – that's if the economy doesn't get them first.

Most businesses now need minimum 24-month indemnity periods, depending on your risk – 36 months would be better, especially for listed buildings. These are complex issues and getting it wrong can lead to all sorts of problems, so it's a risk worth examining closely.

Business continuity reality check (cont.)

Another helpful extension in business interruption cover is called “Declaration Linked Basis of Cover”. This provides a 33.33% uplift to your gross profit estimate you must provide to insurers. So if your gross profit is £1,000,000 then this gives you £1,333,300 of cover. This is similar to the Day One Reinstatement we mentioned before and provides that extra cover especially for expanding businesses.

Three things to do now:

1. Be honest with yourself about how long it’ll take to get back in action after a major loss.
2. Review your indemnity periods and make sure they’re fit for purpose.
3. Find out if you have a Declaration Linked Basis of Cover extension, and if not then consider putting it in place.

Indemnity periods – how long do you need?

In a nutshell:

We touched on indemnity periods before, but how much does it cost to give yourself more breathing space – and is it worth it?

At the end of your indemnity period, the insurer's cheque book snaps firmly shut. Even if you've been prudent enough to activate a Declaration Linked Basis of Cover, that won't do you any good if you're still six months away from being able to trade again.

Remember the new £600,000 machine you had to order? The manufacturer was delighted to supply it, of course. The trouble is there's an 18-month lead-in time and you still need to find someone to install and commission it. Your indemnity period is 12 months.

Indemnity periods - how long do you need? (cont.)

For 12 months from the date of the loss, your insurer will pay for your loss of profit. Once those payments stop, you still don't have your machine to generate that profitable income but now you're liable for those costs. It takes another few months to commission the machine after delivery, and you then have to win back lost orders.

All of a sudden, a 36-month indemnity period doesn't seem so far-fetched.

However, the cost of a 36-month indemnity period is unlikely to be three times the cost of a 12-month indemnity period.

Let's say your business interruption premium for a 12-month indemnity period, for a sum insured of £1m, costs you £1,000. For increased indemnity periods, the costs might look a bit like this:

Indemnity Period	Sum Insured	Premium
12 months	£ 1,000,000	£1,000
24 months	£ 2,000,000	£1,750
36 months	£ 3,000,000	£2,250
48 months	£ 4,000,000	£,2800

Indemnity periods - how long do you need? (cont.)

Much of this depends on your risk, and this is a simple illustration of the costs and the types of discounts insurers have traditionally given for increased indemnity periods. But the point is that for a relatively small additional outlay, you can create a huge amount of extra headroom in the event of a loss.

Three things to do now:

1. Think about how long it'll take you to get back to profitable trading post-loss.
2. Find out what a longer indemnity period would mean for your premium.
3. Speak to your broker about insurer discounts and costs.

Even in the strongest headwinds, you can keep moving forwards

Everywhere you look at the moment there seem to be challenges. We won't list them, you know what you're up against. But while insurance might not feel like the obvious place to start, there are some lesser-known options available which can make a real difference to your ability to recover if things do take a turn for the worse.

As always, forewarned is forearmed. It's important to get on the front foot (we're mixing our limb metaphors here, we appreciate) and look at where you can give yourself more room to manoeuvre if necessary.

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