COVERAGE INSIGHTS

Businesses rarely remain static. Signing new contracts, operating from different locations or adopting alternative methods of working are just some of the ways a company's risk profile can change. Consequently, coverage that was once appropriate may fall behind as risks evolve, especially amid broader market shifts, such as technological advancements or regulatory changes.

If coverage gaps aren't proactively identified before a loss, businesses may end up paying significant out-of-pocket costs. Regular insurance reviews are an essential risk management tool that helps companies ensure their coverage aligns with current exposures. These reviews also demonstrate preparedness, which could support more favorable policy terms and pricing.

This article outlines the key areas business owners should review ahead of their insurance renewals.

Business changes can directly affect insurance needs. For instance:

- Expanding into new locations, introducing new services or undertaking renovations may create additional liability exposures that existing policies may not fully address.
- Taking on high-value contracts or projects may require increased liability limits, umbrella coverage or updated certificates of insurance to meet contractual requirements.
- Hiring new employees or making other payroll changes may increase workers' compensation exposures.
- Introducing advisory or professional services may necessitate updates to professional liability coverage, also known as errors and omissions (E&O) insurance.
- Changing entity structure (e.g., from a sole proprietor to an LLC) may affect how policies are written and coverage is applied.

Over time, insured property values can become outdated as replacement costs rise due to inflation, supply chain disruptions and other market factors. For example, a commercial building valued at $2 million five years ago may now cost $2.8 million or more to replace, leaving the property owner significantly underinsured if the policy limit hasn't been updated. Compounding this risk, many commercial insurance policies include coinsurance clauses that require policyholders to insure property to a specified percentage (e.g., 80%) of its full replacement value. If coverage falls below this threshold, claim payouts may be reduced proportionally, even for partial losses.

To help minimize this exposure, business owners should undertake an annual review of their statement of values to ensure it provides a comprehensive breakdown of insured assets, such as buildings, equipment and inventory. They should also confirm whether their property is insured on a replacement cost value (RCV) or actual cash value (ACV) basis, as ACV coverage typically provides only the depreciated value of an asset based on its age and condition, which may result in lower-than-anticipated claim payouts. In most cases, RCV coverage, which generally pays to replace stolen or destroyed property with new items of comparable kind and quality at current market prices, is preferred.

In addition, business owners should review their business interruption coverage to ensure it reflects current revenue and ongoing expenses in case operations are suspended due to a covered loss (e.g., a fire). They should also confirm the policy's indemnity period is sufficient to support full recovery, taking into account the time required to rebuild or replace assets and resume normal operations.

Liability exposures can evolve, and limits that were appropriate several years ago may no longer reflect current risk. Developments such as social inflation—the trend of liability claim costs rising faster than economic inflation, driven by more plaintiff-friendly juries—and a rise in nuclear verdicts—jury awards exceeding $10 million—have, in some cases, shifted what may be considered adequate levels of coverage.

When reviewing policies, business owners should examine their liability limits across key lines of coverage, including general liability, commercial auto liability and employers' liability insurance. They may also wish to consider an umbrella policy, which can provide additional coverage above primary liability insurance limits.

Additionally, businesses that have added advisory, consulting, design or other professional services may face professional liability exposures not typically covered by standard general liability policies. In these cases, E&O coverage may be necessary to protect against financial losses arising from professional mistakes.

Cybersecurity is now a mainstream exposure for most businesses, yet standard general liability policies typically exclude or offer limited coverage for data breaches and network security incidents. As a result, business owners should consider the merits of standalone cyber insurance. Companies should confirm that coverage extends beyond data breach response costs to address a range of cyber exposures, including cyber extortion events and ransomware losses, business interruption caused by cyber incidents, and third-party liability arising from data breaches or privacy claims. Strengthening cybersecurity safeguards, such as multifactor authentication, patch management and data backup protocols, may be viewed favorably by insurers at renewal.

Coverage gaps commonly arise from misunderstood or overlooked policy terms and exclusions. For example, commercial property policies typically exclude coverage for flood and earthquake losses. Depending on the exposure, these risks may be addressed through a policy endorsement or standalone coverage, such as private flood insurance or the National Flood Insurance Program. As limitations are often detailed within policy wording rather than clearly highlighted on the declarations page, business owners should work closely with their brokers to identify key exclusions and determine whether endorsements or additional coverage are needed to address any gaps.

To help improve renewal outcomes, business owners should begin the process 90 days to 120 days in advance, working with a broker to proactively identify gaps, update valuations, negotiate terms and explore coverage options. Preparing up-to-date business data, including revenue figures, payroll information, property values and a clear summary of recent or planned operational changes, can support more favorable pricing and coverage terms.

Contact us today for additional coverage guidance and solutions.