

# Setting your sums right

**Del Sharman** of brokers Pound Gates offers advice on purchasing the correct level of cover for your business...

**I**n order for your insurance policy to operate effectively in the event of a claim, it's essential to set your cover at the right level. This is important at the outset of your insurance but also regularly throughout the policy year and at each renewal. Certain events such as renovating the nursery, purchasing new equipment (including if you have received grant funding for the purchase) or an increase in occupancy levels or child numbers should also trigger a review of your sums insured. Doing so will ensure that you're adequately protected and paying the right level of premium.

When it comes to assessing your sum insured requirements, the approach will vary between different areas of your policy cover as follows:

**PROPERTY DAMAGE  
NURSERY CONTENTS:**

You should establish exactly how much it would cost you to replace the entire contents of the nursery as new and insure for this amount (don't forget to include the contents of any outbuildings and any outside play equipment).

**PROPERTY DAMAGE  
BUILDINGS & TENANT'S  
IMPROVEMENTS:**

If you're responsible for insuring the building you occupy, your sum insured should represent the current rebuild value (not market value) and include an allowance for architects' and surveyors' fees, landlord's fixtures and fittings, outbuildings, boundary walls, gates, fences, hedges, terraces, drives and footpaths. You should also include the cost to replace any sunshades or canopies attached to the building.

Your insurance broker /

company will not be able to advise you on the appropriate sum insured to select for your building. Instead, you should have the building valued by a quantity surveyor at least every two or three years to establish the appropriate rebuild cost.

If you're not responsible for insuring the building, you should still consider whether you have made any improvements or additions to the property as tenant that you need to insure. These 'Tenant's Improvements' would include things like kitchens, bathrooms, partition walls or outside structures (e.g. sunshades and canopies) that you've installed. These should be insured for the full cost of replacement in the event of a loss.

**BUSINESS INTERRUPTION  
GROSS FEES:**

Knowing how to arrive at an adequate sum insured to protect gross fee income can be confusing.

Some insurance providers, including ourselves, include a high standard umbrella limit which is more than adequate for most single site nurseries. However, even with this in-built level of protection it's still important to know how to approach calculating your annual gross to ensure your cover is adequate.

The following formula can be used to work out your anticipated gross fee income:

**Average Income per child, per week x Average number of children at any one time (occupancy level)**

This figure should then be adjusted to reflect for the forthcoming financial year / insurance period and to

cater for things like inflation or anticipated business growth. For example, you may forecast that your business will grow by 15% during the next year. Inflation might be running at 5%. Taking into account these figures, the £390,000 Gross Fees figure shown in the example below would become an annual Gross Fees sum insured of £471,000 (rounded up).

**Average income per child of £150  
Business open 52 weeks per year X  
Average number of children 50  
£150x 52 weeks per year (£7,800) X  
50 children = £390,000 annual gross fees**

Finally, you should adjust the annual gross fees sum insured to reflect your chosen indemnity period. The indemnity period represents the maximum period over which the business could be affected by the occurrence of loss or damage.

If you were to suffer a large claim, which interrupted or temporarily closed your business, how long would you anticipate the recovery of your business to its position just prior to the loss? Most insurance policies come with a standard indemnity period of 12 months, but this can normally be extended to up to 36 months, should you require. If you select an indemnity period greater than 12 months, you'll need to increase your annual gross fees sum insured to reflect this in accordance with the formula below:

INDEMNITY PERIOD	MULTIPLE
12 months	1x annual gross fees sum insured
18 months	1.5x annual gross fees sum insured
24 months	2x annual gross fees sum insured
36 months	3x annual gross fees sum insured

**Del Sharman is Underwriting Manager at Pound Gates Insurance Brokers.**

