

FALSE

AN ESTIMATED quarter of all catering businesses face financial ruin. And around two-thirds could run into serious problems. All because they are under-insured.

The damage is often done by a clause written into insurances policies known as the "average" clause. This allows that if, for example, you insure your building for £240,000 when it should have been for £720,000 and your kitchen burns down, you will only get one-third of the kitchen's value because you under-insured the entire building by one-third.

It is a rule that can come as a sobering shock, as it did to Michael Arthurs, who owns a free house, the Churchill Inn, in Paxford, Gloucestershire.

Arthurs' pub was ransacked by burglars in May. He had an all-in buildings and contents package with Provincial Insurance, but he insured the contents only to a maximum value of £3,200.

Provincial said he should have been insured for £20,000. Despite claiming for £2,000, Arthurs was offered only £71.

He was so under-insured that, in accordance with the "average rule", Provincial offered to recompense him only for a small proportion of what they believed the goods were worth.

In the end, he accepted a settlement of £950 after arbitrators stepped in.

In another case Leslie Grant, the owner of four café bars, a restaurant and a nightclub, accepted a £40,000 settlement of a £100,000 claim after a fire which wrecked one of his businesses, the Wildmoor nightclub at Stratford-upon-Avon, in April, last year.

But Grant, who had a policy through Bowring Marsh & McLennan, was under-insured. "If I had not got some financial resource behind me I would have gone under. There is nothing I can say to anyone to prepare them for this kind of horror," he says.

The cases where caterers have been caught out are numerous, and most prefer to remain anonymous – such as the café in Islington, whose proprietor was not advised that employer's liability extended to part-timers so his wage roll declaration excluded them, affecting the premium

economies

Being under-insured could destroy your business, so don't fall into the "average insurance" trap, warns Andrew Don

and therefore the proportion of a claim he made.

Then there was the restaurateur in Bristol, who was unaware that "trade contents" included cookers and freezers. His sum insured had to be increased from £40,000 to £70,000.

Adrian Hope, chief executive of Gauntlet, which claims to insure 43% of the top hotel groups in the UK, claims that during the recession many hoteliers and

restaurateurs will have willingly under-insured to save money.

It may be a false economy, but whose fault is it? Caterers are catering specialists. Unless part of a big chain that has personnel whose job is specifically to look at issues such as insurance, they cannot be expected to be insurance specialists too.

"Policies are now written in plain English but sometimes people read them only when they make a claim," says Malcolm Tarling, spokesman for the Association of British Insurers (ABI).

But he admits that perhaps people are not encouraged to read their policies thoroughly enough when they take them out.

Haydn Hertz, director of Fidelis Insurance Group, which administers the Bon Appetit restaurant insurance scheme, claims that around 65% of caterers have an element of under-insurance and around 25% are under-insured across the board.

"The reason people will not insure is because of lack of knowledge and understanding. They do not know what contents are. They know it is tables and chairs, but forget it is fixtures and fittings and garden furniture, too. It is a combination of not being given enough information by the broker and not regarding insurance as important."

As David Harrold, chief executive of the Restaurateurs Association of Great Britain, says, insurance is sometimes regarded as "a necessary evil". His gut feeling is that 10-15% of his association's members could be under-insured.

Often if a claim is for £1,000 or less the insurer is not interested if the total cover is correct. It depends what proportion the amount claimed is of the total cover. If the total cover is for £3,000, then the insurance company might investigate because the amount claimed of that is one-third.

Haydn Hertz says that most insurance claims are not large enough to be affected by the "average" clause and for that reason people are unaware of it.

One of the biggest pitfalls resulting in

CONTACTS

Insurance premiums as a percentage of turnover range from 0.35% to 1%

AGF Insurance 0908 690888
Alexander Miller 071-3522440
CE Heath 0403 211111
Corrie Bauckham Batts
 071-480 6587
Fidelis Insurance Group
 081-343 1907
Gan Minster 071-623 5280
Gauntlet 0732 771818
GR Patrick 081-336 0099
Legal & General 081-882 6181
Licensed Trade Insurance
 0800 181255
RHH Insurance Services
 0703 537000

● **This is a small sample of brokers, intermediaries and insurance companies that deal with catering establishments, but not necessarily a recommendation. Always shop around for the cover to suit your needs.**

Source: Fidelis Insurance Group