PROTECT
COMMERCIAL INSURANCE

UNDERSTANDING YOUR INSURANCE POLICY

DECODING YOUR TERMS AND CONDITIONS

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Insurance is one of those products you buy in the hope that you will never have to use it. However, when a claim does occur, the "fine print" of your policy becomes the most important document in your business.

An insurance policy is a legal contract. That means that your insurer will pay the amount of any valid claim, up to the amount stated in the policy. That also means that there are conditions that you, as the policyholder, must also adhere to. We must also remember that your policy documents are not the insurance contract itself, but rather evidence of the insurance contract. It is within the policy documents where the full terms and conditions of the insurance contract can be found.

These terms and conditions can be found across several policy documents. The two main policy documents where these conditions can be found are within the policy schedule and the policy wording.

The policy schedule is specific to you as the policyholder. It will contain specific limits on how much the policy will pay up to, the premiums payable for each insurance cover purchased, and the specific policy conditions applicable to your individual risk.

The policy wording is issued to explain the full and finer details that will be applicable to all policyholders. It's often the finer details in the policy wording that contain technical, legal 'jargon' that cause a challenge for policyholders to truly understand their policy.

We understand that insurance can be a difficult thing to understand, and we want to ensure that you and your business is fully protected. So, we have provided a table with key definitions that you're likely to find in your policy wording to help you identify your responsibilities and how the policy will respond in the event of a valid claim.

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Key Term	Definition	Example
Aggregate Limit	The total maximum amount an insurer will pay for all claims combined during a single period of insurance.	On a Public Liability, if you have a £2m aggregate limit and suffer three separate £1m claims in one year, the policy only pays £2m total, leaving you to fund the final £1m.
Claims Condition: **Evidence**	A requirement to provide all documentation and evidence requested by the insurer to prove the loss.	Following a theft, the insurer requests invoices or receipts to prove ownership of the stolen laptops before they will settle the claim.
Claims Condition: **Mitigation**	The requirement to "act as if you were uninsured" and take steps to prevent further loss after an incident.	If a pipe bursts, you must turn off the water and move stock away from the flood immediately rather than waiting for a claims assessor.
Claims Condition: **Notification**	The strict timeframe and method by which you must inform the insurer that a loss has occurred.	Most policies require "immediate" notification or notice within 7–30 days. Late notification can lead to the claim being rejected.
Condition of Average	A clause used to manage underinsurance; the claim payment is reduced in proportion to the level of underinsurance.	If your stock is worth £100k but you only insure it for £50k (50%), a £10k fire claim would only result in a £5k payout.
Condition Precedent to Contract	A requirement that must be satisfied for the insurance contract to be valid from the start.	The **payment of the premium** by the due date. Failure to pay means the contract was never technically "in force."
Condition Precedent to Liability	A specific obligation that must be met before a claim occurs for the insurer to be liable for that claim.	On a public or products liability insurance policy, the requirements to have been in complete compliance with Health and Safety Executive Approved Code of Practice (ACOP) 1992.
Condition Subsequent to Liability	A specific obligation that must be fulfilled after a loss has occurred to maintain the insurer's liability.	A requirement to provide a "Statement of Claim" or formal proof of loss within 30 days of the incident to keep the claim valid.
Deductible	An amount the insured pays toward a loss, typically subtracted from the policy limit.	With a £1m limit and a £5k deductible, the insurer pays a maximum of £995k for a £1m loss.
Excess	The first amount of each claim that the insured is responsible for paying.	If you have a £250 excess and a £1,000 laptop is damaged, the insurer pays you £750.
First Loss	A policy where the insurer pays up to a set amount without applying "average," even if the total value is higher.	You have £1m of stock on-site but a total loss is impossible. You buy "First Loss" cover for £100k; any claim up to £100k is paid in full.
Indemnity	The principle of restoring you to the same financial position you were in immediately before the loss.	If a 5-year-old machine is stolen, indemnity provides you with its current "market value," not the price of a brand-new machine.

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Key Term	Definition	Example
Inner Limit	A sub-limit within the main Sum Insured that restricts the amount payable for specific types of loss.	Your office contents are insured for £50k, but the policy has an "inner limit" of £2,500 for any one individual item.
Limit of Indemnity	The maximum amount an insurer will pay for any one single occurrence.	If your Public Liability limit is £5m and a visitor is injured, the insurer pays up to £5m for that specific incident.
Material Fact / Material Representation	A statement made that is relevant to the risk that would influence an underwriter's decision to accept the risk, and if so, on what terms and at what premium.	Telling an insurer your building is made of brick when it is actually timber-framed; this could void your entire policy.
Reasonable Precautions	A requirement for the insured to take all practical steps to prevent loss or damage and maintain property.	Failing to lock your front door at night may be seen as a failure to take reasonable precautions, potentially voiding a theft claim.
Reinstatement	A basis of settlement where the insurer pays the cost of replacing property with a brand-new equivalent.	If an office printer is destroyed, the insurer pays for a brand-new equivalent model, regardless of the age of the original.
Sum Insured	The maximum liability of the insurer for a specific asset as stated in your Policy Schedule.	If your warehouse is insured for £500k, that is the absolute maximum payout, even if rebuild costs rise to £600k.
Warranty	A fundamental promise by the insured to do or not do something (e.g., maintaining an alarm).	An "Alarm Warranty" requires you to set the alarm when closed. If the alarm wasn't set during a burglary, cover is suspended.

Understanding these terms is a critical step in professional risk management. Whilst the definitions above provide a general framework, the specific application of these terms can vary depending on the insurer and the nature of your business.
As your insurance broker, our role is to ensure that your insurance policy provides you with the protection you need.

We recommend that you take the next three steps to ensure your familiarity of your policy:

• Review your policy schedule. Be familiar with the specific terms listed in the schedule.

• Identify your warranties. Pay particular attention to any warranties and conditions precedent. You're likely to find any warranties on your policy schedule, and any warranties in the policy wording.

• Ensure that you're able to comply with the claims conditions found in the policy wording.

Your protection is our priority.
Let's ensure your policy works as hard as you do.

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If you require any further information that is not covered in this document or simply wish to discuss any issues in more detail, please contact us on 02921 677140 or info@protectcommercial.co.uk

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