



Insufficient risk information can be expensive

If the insurance company has insufficient information about the company's risks, the company cannot be sure to have coverage for its losses in the event of a damage.

By Kristine Seest

A new court ruling shows exactly how expensive it can be not to provide your insurance company with accurate information about the company's risks.

In the specific case, a fire broke out in a building that according to the information given by the company was to be used for storage. It turned out, however, that a small car repair shop had been set up in the building – and that the fire broke out in a car on a lift in the workshop.

The fire caused damages of DKK 50 million.

The insurance company refused to cover the loss on the grounds that the risk of fire had been significantly increased without the insurance company's acceptance and that the insurance company would not have taken out the insurance if it had been aware of the existence of the car repair shop.

The company then sued the insurance company.

Important to keep information up to date

The district court found that the insurance company – pursuant to section 45 of the Danish Insurance Contracts Act – was not obliged to pay compensation.

Section 45 of the Danish Insurance Contracts Act

If with the volition of the assured any hazard specified in the policy is altered in such a manner that the risk of the company is thereby increased in excess of that which at the time of the conclusion of the contract may be presumed to have been taken into consideration, then the company shall be discharged from liability, provided that it would have refused the insurance, had the conditions caused by the alteration existed at the time, when the contract was made.

»The case emphasizes how important it is to notify the insurance company when there are changes in the company's risk profile – for example in connection with a conversion, changes in the use of a building or an increase in the values in the building. If the insurance company has not received correct information, then it can – as in the case in question – result in the company not receiving any compensation or only partial compensation for a damage,« says property insurance specialist Nikolaj Kyllesbech from Willis Towers Watson.

He points out that the demand for accurate risk information has increased in recent years.

»The premium is based on the risk information, and the insurance companies have increased their demand for accurate and detailed information. The general insurance market is getting tougher by the day – not least in claims situations where the insurance companies are increasingly exploring the possibility of rejecting the claim or reducing the compensation,« says Nikolaj Kyllèsbech.

Covid-19 induced changes

It is not only information about the company's properties that needs to be correct in order to obtain insurance coverage in the event of damage. The outbreak of covid-19 has caused many companies to change existing practices – some companies have completely changed their production, while others have experienced external changes that they have had to adapt to.

»The pandemic has kept many companies busy putting out fires, but even though a company is challenged by a changing world, we as a broker must emphasize the importance of keeping the company's risk information up to date,« says marine cargo and claims specialist Søren Staberg from Willis Towers Watson.

He has spoken to a number of clients who all face new risks that have arisen during the corona crisis.

»The outbreak of covid-19 caused logistical challenges with delays, congestion in ports and challenges with accessing arrived goods in containers. If this situation arises again, great values are at risk of falling into an insurance vacuum in a completely new risk scenario. The storage risk is not always included in the existing insurance program and therefore the companies risk having to pay themselves if they do not act, and something happens to the goods while in storage,« says Søren Staberg.

Lower premiums

Companies are facing higher premiums in the current insurance market, but lower premiums can be the result of updating the company's risk information.

»All other things being equal, it must be assumed that the more accurate risk information a company provides to its insurance company, the more accurately the insurance premium will be determined. A risk can grow or shrink and from an optimistic point of view it means that the company avoids paying too much for its insurance,« says Søren Staberg.

Willis Towers Watson encourages all clients to be aware of their insurance policies when significant changes are made – and to contact their broker in case of doubt.