

Underinsurance: Causes and Consequences

Robust insurance coverage is a key piece of effective risk management. A single uninsured event can lead to severe financial disruption, halt operations and threaten long-term viability. Yet, despite these risks, underinsurance remains a frequently overlooked vulnerability. Whether due to outdated valuations or budget decisions, carrying insufficient coverage can leave businesses exposed. Business owners need to be aware of the causes and consequences of underinsurance and take steps to address it.

Several factors contribute to underinsurance in businesses, including the following:

- **Outdated property valuations**—Business owners may overlook the need to routinely update the value of their buildings, equipment or inventory, resulting in coverage that doesn't accurately reflect current replacement costs.
- **Business growth without policy changes**—Business owners may add staff, change locations or increase assets without adjusting their insurance coverage, creating new exposures and increasing the risk of uncovered losses.
- **Misunderstanding policy terms**—Business owners may misinterpret complicated insurance policy language, leading to false assumptions about what is covered, when coverage applies and how limits or sublimits work.
- **Fixating on premiums**—Business owners may focus on minimizing insurance costs without considering the implications of reduced coverage limits, broader exclusions or how higher deductibles may compromise coverage.
- **Neglecting emerging risks**—Business owners may fail to account for new threats such as cyberattacks, climate-related events or supply chain disruptions that may not be covered under standard policies.

The financial and operational consequences of underinsurance can be significant and include:

- **Partial or denied claims**—If coverage limits are too low or exclusions apply, insurance may not fully cover the cost of losses. This can leave the business responsible for the remaining expenses.
- **Lengthy downtime**—Coverage should be in place to adequately cover loss scenarios. For example, without business interruption coverage, a business may struggle to meet ongoing expenses during recovery following significant property damage, increasing the risk of prolonged closures or permanent shutdown.
- **Regulatory and legal exposure**—Insufficient liability coverage can leave businesses vulnerable to fines, penalties or lawsuits, particularly in highly regulated industries.
- **Reputational damage**—Delays in service or failure to meet obligations due to uninsured losses can erode client trust and damage long-term relationships.

To minimize underinsurance risks, business owners should regularly reassess their insurance coverage, particularly after operational changes (e.g., expansion, new hires or equipment upgrades). Obtaining professional appraisals of property and assets is also crucial, especially during periods of inflation or supply-chain volatility. Additionally, businesses should evaluate whether their existing policies account for emerging risks, including cyberthreats, climate-related events or evolving liability exposures.

Business owners should carefully examine policy terms and understand exclusions to reduce the risk of insurance shortfalls. Working with a knowledgeable broker or agent can help uncover insurance gaps and ensure coverage closely aligns with the business's current operations, assets and evolving risk landscape.

Contact us today for more risk management information.

Balancing AI Risks and Benefits

Artificial intelligence (AI) is rapidly changing how businesses function, offering powerful tools to enhance efficiency, strengthen security and improve customer engagement. To adopt AI effectively, business leaders must understand both its strategic advantages and potential downfalls to make informed decisions that align with long-term objectives.

AI offers a range of practical applications that can help businesses operate more strategically, securely and efficiently, including:

- **Resolving problems before they happen**—AI-powered tools assist businesses with anticipating and addressing issues early. For example, route optimization software can actively adapt delivery plans based on traffic, weather or vehicle capacity. Similarly, inventory planning tools can forecast demand to prevent shortages.
- **Automating repetitive tasks**—AI programs can streamline operations by performing repetitive tasks like generating invoices, freeing up time for high-value activities.
- **Improving security**—AI can detect cyberthreats, identify vulnerabilities and respond to suspicious activity faster than manual systems, helping businesses stop cyberattacks before they escalate.
- **Analyzing data**—AI analytic tools can efficiently examine large volumes of business data to spot trends, inefficiencies and growth opportunities. These insights can help businesses make informed decisions, lower costs and identify new revenue streams.
- **Generating and managing content**—AI can create product descriptions, draft and schedule social media posts, and write responses to online reviews to support marketing and brand engagement initiatives.
- **Enhancing customer service**—AI-powered chatbots can respond to common questions, help with orders and provide 24/7 support, improving the customer experience.

However, understanding the potential risks of AI is crucial for businesses to protect operations, uphold stakeholder, client and employee trust, and support sound decision-making.

Businesses should be aware of the following AI limitations:

- **AI depends on data that is potentially flawed or outdated.** AI systems are only as strong as the data they use. Inaccurate, biased or incomplete data can lead to incorrect decisions, poor recommendations and unreliable insights.
- **AI can weaken cybersecurity.** AI integration can expand an organization's attack surface and create new entry points for cyberattacks. Hackers may use generative AI tools to craft phishing emails, deepfakes or automated threats, increasing the risk of breaches.
- **AI can raise ethical and privacy concerns.** Using AI to collect, store or analyze personal or sensitive data without clear consent and proper safeguards can violate privacy laws, reinforce biases and damage customer trust.
- **AI can outpace internal capabilities.** Limited in-house expertise and insufficient resources can hinder effective AI implementation and increase the risk of mismanagement.
- **Overreliance on AI can lessen human oversight.** Overreliance on AI can lead to unchecked decisions, missed errors and reduced accountability in complex situations.

Responsible adoption of AI is essential as it becomes increasingly embedded in business operations. Businesses must maintain transparency in how AI tools are used, apply ethical standards to data use and collection, and ensure consistent oversight of automated decisions.

These organizations can help mitigate operational, legal and reputational risks by establishing clear governance frameworks, designating AI oversight accountability and investing in staff training and education. Businesses should also review their insurance policies (e.g., cyber insurance, commercial crime insurance and professional liability insurance) to ensure adequate coverage for AI-related exposures.

Contact us today for further risk mitigation guidance and insurance solutions.