

Domestic Buildings Sum Insured

by **Martin O'Brien**

Aren't Eircodes great?! Does anyone remember the criticism that abounded upon its launch? We saw the headlines in the Irish Times such as: "Eircode: there goes another €38m down the drain." However, those of us born without an internal compass can now pop a code into a screen and via the wonder of satellite and computing technology arrive at the door of a new property claim, stress free... or maybe not? Google Maps is definitely a game changer, but the absence of navigational stress for the Loss Assessor is all too often replaced by that sinking feeling when it becomes apparent that the 'initial driveway view' of the property, and the Building Sum Insured, have not converged at the same destination.

As claims professionals we frequently visit domestic losses where the Building Sum Insured is inadequate to a lesser, or greater degree. Unfortunately, domestic policyholders who may have diligently maintained their cover claims free for years (Or sometimes decades) generally only learn of this inadequacy in the event of an actual claim on their policy. In our experience, the Policyholder's regard for their Insurer is typically diminished whenever the Average axe falls. Nevertheless, by engaging the services of a (regulated) Public Loss Assessor at the outset, the effect of any potential Underinsurance can be made the subject of negotiation to mitigate its extent and effect.

We within the industry are all familiar with the operation of Average but it comes as a surprise to many policyholders to learn that it affects their small escape of water claim the same way it does the large fire loss.

When having the all too frequent conversation with policyholders we generally try to explain the implication of underinsurance with a question: "What proportion does the sum 'actually' insured have with the sum that 'ought' to be insured?" followed by an example: If the sum 'actually' insured is €100,000 but the sum 'ought' to be insured is €200,000 then you have purchased 50% of the cover

you should have, hence the importance in getting this figure correct day one.

Buildings Sum Insured, Value at Risk, Rebuilding Cost Assessment or the Reinstatement Valuation are interchangeable terms in the claims sector, but all refer to one important number. For most of us, our family home is the largest asset we will ever own. In that context, getting the Buildings Sum Insured right is absolute critical if the asset value is to be properly protected.

First let us consider what it is not. In a significant percentage of cases policyholders believe that the Buildings sum they insure their properties for is the amount that the premises would fetch if sold on the open market i.e. Market Value. It often comes as a shock to Policyholders when they learn that the 'Market Value' and the 'Reinstatement Value' have no relationship whatsoever. A gentle word of warning here: when we delicately explain the difference between the two the next sentence we inevitably hear is "Well nobody told me that when taking out my insurance".

It is important to understand that the Buildings Sum Insured is a subjective measure as it is the estimated cost for full 'buildings' reinstatement following a total loss scenario. It represents the absolute limit payable by Insurers and must therefore include adequate provision for the full range of cover afforded under the 'buildings' section of the specific policy procured. In theory this could cause the valuation to vary slightly from policy to policy depending on the particulars of cover afforded though in practice the final figure will generally be rounded up to override such differences

In addition to the new build itself it must also include all periphery costs associated with reinstatement as will be expanded on below. Whilst potentially fraught with flaws, the only means to establish 'a' definitive figure would be to seek competitive tenders for full reinstatement. This is clearly not practical when procuring home cover therefore the figure will inevitably be an estimated one.

The following is an outline of the main criteria that need to be accounted-for when estimating the overall Buildings Sum Insured, bearing in mind that the calculation will be based on a 100% total loss

scenario:

1. Demolition, Site Clearance & Disposal Off Site
2. Temporary Works to Stabilise Adjoining Structures
3. Dealing with Hazardous Material
4. New Build
5. Construction inflation
6. Design Team Professional Fees
7. Provisions for Planning/Utility Fees & Charges
8. VAT on All Above

Clearly this calculation is not a task that many policyholders will relish the prospect of sinking their teeth into. Thankfully, the Society of Chartered Surveyors Ireland do excellent work here in annually producing their 'Guide to House Rebuilding Costs' for insurance Purposes which can be found on their website www.scsi.ie

As an aside, most of the loss adjusting firms engaged by insurers to handle claims on their behalf use this guide (or a version thereof) as the basis for reviewing the adequacy of sum insured when first dispatched to a new claim. Therefore, it stands the policyholder in good stead to use the same approach, subject to annual review prior to renewal of course.

The guide simplifies the valuation process in respect of "Estate type houses built since the 1960's" broken down for various configurations and regions throughout Ireland. It is strongly recommended that any policyholder estimating their own Building Sum Insured should study this guide very carefully to fully understand the nature and limitations of same. Only if their property falls within the range covered by the guide should they proceed to use the online calculator which can be found on the same site. Where a property falls outside the parameters of the guide e.g. more than two storeys; with basement; one off or period properties; apartment buildings etc. then it is strongly recommended that the Buildings Sum Insured is assessed by a suitably qualified and experienced professional.

The inadequacy of the Building Sums Insured is without doubt the single most frequent issue we encounter on domestic property claims.

Policyholders often tell us that they simply do not understand fully what the figure is for, the extent of what it needs to cover or how to go about calculating the right sum.

Obviously the greater the level of underinsurance the greater the impact. We at Owens McCarthy have however had considerable success in negotiating the sufficiency of sums insured where previously underinsurance was suggested or managing the claim process to minimise its impact where unavoidable.

Policyholders are generally older and wiser after a claim, but perhaps we can do more as an industry to help policyholders get their Building Sum Insured on the right track before a claim. After all, strengthening sums insured might do the same for premium and possibly make that 'initial driveway viewing' a little less tense!

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Bio:

Martin O'Brien is an integral part of Owens McCarthy's technical claims team, delivering excellent client outcomes in the South East area. Martin is a qualified Quantity Surveyor, an Associate of the Society of Chartered Surveyors and Member of the Royal Institute of Chartered Surveyors. He holds a Degree in Quantity Surveying and has over fourteen years' experience as a project-attached and site-based Quantity Surveyor.