

How do we make sure we have the correct sum insured?

The quality of your insurance cover is paramount, but the next most important matter is the accuracy of the buildings sum insured.

As a policyholder you are responsible for ensuring that the buildings are insured for the right amount. Your insurer is unlikely to look at this on your behalf, as establishing a correct sum insured requires specialist knowledge.

If the buildings sum insured is too high then you are paying too much for your insurance. If the buildings sum insured is too low then not only do you run the risk of not being able to rebuild your property in the event of a total loss, you also have the problem of payments for smaller claims being reduced.

In the event of underinsurance, the insurers will normally apply their "Average Clause". This is a policy condition that allows the insurer to proportionately reduce the amount that they pay you, if you have not insured the property for the full reinstatement value.

The cost of rebuilding a property to the same specification is constantly changing and this cost is normally an upward movement. To help alleviate this issue, most insurance policies automatically increase the buildings sum insured each year by a given percentage, known as index-linking. Whilst this helps, it doesn't eliminate the problem of over or underinsurance if the initial sum insured was incorrect. The index that the insurer uses, does not take into account any specific construction issues of your property let alone local inflationary factors, so the adequacy of the sum insured may erode.

There is therefore no substitute for a professional buildings valuation. Such a valuation should be carried out on a regular basis and whilst the frequency of valuation will vary depending on the type and size of property, we would recommend that a valuation is carried out at least once every five years.

Obviously any changes to the building in this period such as extensions and improvements need to continue to be notified to the insurers and the sum insured increased to reflect such additions.

It is also worthwhile confirming with your insurer that a professional valuation has been commissioned as it may be possible to agree with them that the "Average Clause" can be deleted. In the event that the valuation is found to be too low the insurers will not proportionately reduce any small claim. However in the event of a total loss, the insurers will still only pay a maximum of the sum insured.

It may also be worth noting that many insurance policies additionally protect against the effects of inflation on building sums insured by including a "Day One" Clause("). This clause provides protection against the effects of inflation during the period of insurance for a given percentage uplift figure. The percentage uplift will vary from insurer to insurer but will typically be between 10% and 50%.

The insurers still require a rebuilding (building) figure to be given to them, known as the "declared value" and in return they will confirm what the total sum insured equates to inclusive of this Day One protection. For example a property with a rebuild figure of £500,000 which represents the declared value, will have a sum insured of £600,000 if the insurance policy contains a 20% Day One Uplift Clause.

The declared value figure and the sum insured figure are often confused. If the declared value is incorrect then problems may still arise with underinsurance as the Day One Uplift is only meant to protect against inflationary problems and not valuation inaccuracies. The Average Clause will still apply.

When arranging buildings insurance quotations on a "Day One" basis the insurers will need to know the declared value and not the sum insured.

Exclusively flats, it's our policy.

