

Sums Insured & Index Linking

Sums Insured and Index Linking

Your Buildings Sum Insured

It is the policyholder's responsibility to provide the buildings sum insured and to ensure that it is accurate. Getting it right in the first place is essential.

Both ARMA (The Association of Residential Managing Agents) and RICS (Royal Institution of Chartered Surveyors) recommend periodic professional valuations are carried out to ensure the buildings sum insured is correct. Being underinsured could result in you not having your claim paid or having a claim payment reduced. An initial valuation of the rebuilding cost can be obtained from the original buildings survey.

We would recommend that rebuilding surveys are carried out at least every five years. Index linking would then be used to keep up with any necessary increases to the buildings sum insured. In our experience, we have never seen a claim reduced when this practice is carried out and evidenced.

What would happen if my rebuilding cost was inaccurate. If your sum insured is too high, you will pay too much in premium, something that is avoidable if you have a rebuilding survey.

If your sum insured is too low, you risk your insurer applying an "AVERAGE" condition. This works as follows:

Sum insured	£1,000,000
Actual rebuilding cost	£2,000,000
Amount of underinsurance	50%

Insurers would therefore be able to reduce your claim by 50% leaving you substantially out of pocket.

Not all policies have this condition, but if you were paid £1,000,000 and it costs £2,000,000 to rebuild you will still have an enormous amount of money to find if your property has to be demolished due to a fire...

What is Index-Linking?

Index-linking is a mechanism used by insurers to ensure that your rebuilding sum insured remains as accurate as is possible. There are several trade bodies that provide this service, but insurers generally use the Building Cost Information Service (BCIS) who operate under the umbrella of the RICS. Index-linking is not based on the

general rate of inflation, it is calculated based upon the cost of items relating solely to the re-building of property and is even split between commercial and residential property. These include:

- 1) The cost of labour
- 2) The cost of materials
- 3) The cost of professional fees
- 4) The cost of debris removal and site clearance.

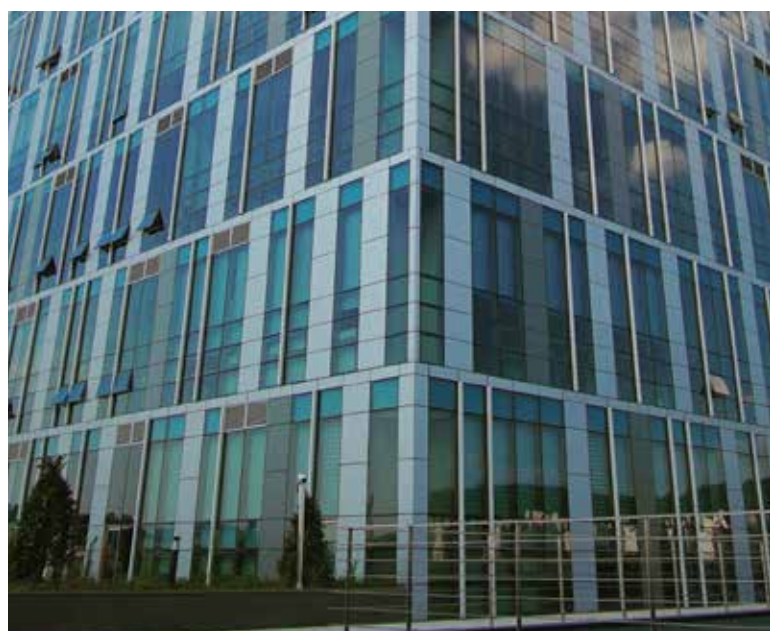
Insurers use this third-party information for both its accuracy and indeed so that they cannot be accused of artificially increasing a sum insured for their own benefit.

In recent months we have seen index-linking percentages over the general rate of inflation as the cost of labour and materials has increased. The UK has seen many of its European migrant workers return home due to covid-19 and uncertainty of the status post Brexit. At present, the increase is approximately 5% meaning that your premium will rise a similar amount.

To conclude

The Brownhill Insurance Group is not qualified to advise or calculate a building sums insured. Having regular valuation surveys are necessary to set the level of cover required to avoid issues of underinsurance.

If you would like further information about this or any other related insurance topic, please give us a call, we would be delighted to help.



Sums Insured & Index Linking



020 8658 4334

info@brownhillgroup.co.uk

BROWNHILL
insurance group