

Guidance notes for sums insured

It's important for customers to have the correct sums insured so they are fully protected in the event of a loss or damage. Our guide covers most customers needs however each individual circumstance for each customer will vary.

Property Sums Insured

Buildings

It's important the sum insured for buildings represents the full rebuilding cost of the property. Customers should not use market value or valuations for mortgage purpose when setting their insurance Declared Value. The Declared Value insured should include:

- cost of materials
- labour costs
- professional fees, such as surveyors and architects
- site clearance/removal of debris costs
- non-recoverable VAT.

Building Declared Values insured should also include, but not be limited to the following if the insured has responsibility for them:

- tenants' improvements
- landlord's fixtures and fittings
- walls, gates and fences
- fixed glass and sanitary ware
- small outside buildings, annexes, gangways, conveniences and other small structures

- extensions communicating with the buildings
- roads, car parks, yards, paved areas, pavements and footpaths
- security cameras and lights
- fixed fuel oil tanks and fixed diesel tanks, piping, ducting, cables
- wires and associated control gears and accessories and extending to the public mains.

Consideration should be given to the type and method of construction required to rebuild the property. For example, if the buildings are listed, it may increase the cost of materials, time and labour required to rebuild the property.

Enquire whether the insured has obtained a recent (within the last three years) RICS professional valuation for insurance purposes and if claims inflation continues to rise, it may be prudent to consider doing this more frequently. This will provide an accurate assessment of the rebuild costs.

Real Estate policies tend to include a provision to protect clients against inflation during a Policy Period, this is called "Day One" and is a percentage (usually between 30-50%) by which the Insured Building Declared Values are uplifted under the Policy to achieve the "Sum Insured".

Loss of rent

Loss of rent sums insured should reflect the anticipated rental income of the indemnity period selected and take into account any forecast increase in rent received. It is prudent to undertake Annual Rent Reviews.

Like the Day One uplift under the Buildings, Real Estate policies tend to have an automatic uplift applied to their Loss of Rent Declared Value of up to 200% in order to arrive to the Sum Insured. Again like buildings, clients must set their own insurance Declared Value at the beginning of each insurance period (seeking appropriate advices as required) and only look at these uplifts as contingency protections.

Indemnity periods

When calculating Loss of Rent Declared Value on an annual basis they must be increased accordingly if an indemnity period greater than 12 months is selected. In most circumstances, a minimum indemnity period of 24 months should be considered to take into account site clearance, design and planning applications, rebuild time and replacement of plant and machinery.



Please contact your local Allianz Commercial representative for further information.