

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, but not limited to:

- 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.

Commercial property 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 15-30%) by which the Insured Building Declared Values are uplifted under the Policy to achieve the "Sum Insured".

For Intermediary Use

Contents

It's important that the sum insured for contents represents the full cost of replacement. When setting the contents sum insured the customer should ensure allowance is made for any specialist items of machinery or plant where the cost of replacement has increased beyond the average rate of inflation.

Similarly to building, commercial property policies tend to include a "Day One" provision in respect of contents to protect customers against inflation during the Policy Period which is applied to the Contents Declared Values to produce the "Sum Insured".

Loss of profit/revenue

Loss of profit/revenue sum insured should reflect the anticipated profit/revenue for the duration of the Indemnity Period selected. The sum insured should take into account any forecast increase in profit/revenue received, for example if a business is growing profit/revenue by 10% year on year this increase should be built into the sum insured for the Indemnity Period selected. It is also possible to insure profit/revenue on a "Declaration Linked" basis which provides an automatic uplift of one third to the profit/revenue sum insured. The customer is required to provide a declaration at the end of each period of insurance of the actual profit/revenue earned and the premium is adjusted accordingly.

Indemnity periods

When selecting an indemnity period the customer should consider how long it will take to recover the business to the same trading position it was in immediately prior to the loss. There are many factors which need to be considered when selecting an indemnity period following a serious property loss including:

- How quickly the building could be reinstated
- Whether there is a Grade listing which could delay planning permissions
- If there are any specialist construction materials required which may be in short supply
- If reinstatement requires any specialist labour which may be in short supply
- If replacement machinery and plant is readily available. If the equipment is specialist, how long will it take to be delivered.
- How long will it take to rebuild the customer base where customers may have moved to new suppliers?

Having calculated Loss of Profit/Revenue sum insured on an annual basis the figure 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.