

PROTECTING YOUR PROPERTY - UNDERINSURANCE

Guidance on property rebuild costs and valuations



As a property owner it is crucial to ensure that your assets including buildings, contents and rental income are adequately insured.

Taking buildings insurance as an example, your sum insured should reflect the cost to totally rebuild your home and this would include not just the materials but professional fees too such as architects and surveyors.

Why it's important to get your sums right

The main reason for getting your sums insured right is because of the possibility of underinsurance. Most insurance policies will have an underinsurance clause called 'average'. What this means is that if you make a claim and your sums insured are too low, the amount you are paid can be proportionally reduced.

Example of a claim impacted by 'average' due to underinsurance

A medium sized property built of brick with a pitched tiled roof has a buildings sum insured of £450,000.

A storm hits and the ground floor is flooded causing £80,000 worth of damage to the property.

The claim investigation assessed that the true rebuild cost of the property was £600,000. This figure was based on costs including the rebuild, demolition, pathways, professional fees, garden fencing and statutory services.

The property was underinsured by 25%.

The 'average' clause proportionally reduces the claim payment in line with the percentage of underinsurance. The claim was for £80,000 so the payment is reduced by 25% to £60,000. The difference will need to be met by the policyholder to complete the repairs.

Why you might be underinsured

The impact of Covid lockdowns causing the slowing of material production with increase demand, and delays of EU imports due to Brexit have seen costs of materials and labour increase significantly in the last 12 to 18 months.

The Building Cost Information Service (BCIS) general building cost Index indicates a rise of 10.2% in September 2021 compared to the same period one year ago. The BCIS Materials Cost Index represents the largest contribution to this increase, with the overall cost of materials in the index rising approximately 19.7% during this period.¹

BCIS commented in 2021 on how this increase translates:

*"The cost of materials to construct a three-bedroom, semi-detached house has increased by 14% or around £7,300 between January and September. It is expected to grow by further 1% or £600 by the end of this year."*²

Looking at supply, the Construction Leadership Council reports that:

"...as in previous statements supply challenges continue..."

With regard to one building material, they state that:

*"The high level of demand means that a shortfall in the domestic production of bricks, which is already at full capacity, will continue throughout 2022."*³

Increasing costs alongside rising demand and delays of imports may mean you could be underinsured.

¹ <https://www.rics.org/uk/news-insight/latest-news/news-opinion/construction-materials-cost-increases-reach-40-year-high/>

² <https://ww3.rics.org/uk/en/journals/construction-journal/construction-materials--the-current-state-of-play.html>

³ <https://www.constructionleadershipcouncil.co.uk/news/construction-product-availability-statement-10/>

Review your sums insured

It is good practice to review sums insured with your insurance advisor at least annually when your insurance policy falls due for renewal, but you should also ensure you are aware of external factors that could impact costs outside of your renewal.

To check your sums insured, you can get your property professionally assessed by a RICS qualified surveyor or using a rebuild calculator.

Here are some useful links:



[Rebuild calculator](#)



[Guide to calculating your rebuild costs](#)



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Thank you for reading

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