Insurance Reinstatement Cost Assessment Fact Sheet

Shaw&Co chartered surveyors

What are they?

- A written report that provides a reinstatement cost for the estate from scratch.
- Recommended by RICS and insurers to be undertaken every three years.
- Assessment of reinstatement costs and confirmation of construction and materials.
- The figures represent the cost of rebuilding to modern standards and regulations.
- Figures are inclusive of VAT.
- Used to produce an accurate Declared Value for your Insurance policy.
- Insurers use this to assist in determining the building sum insured and to calculate the annual premium.

How are they prepared?

- The surveyor carries out a site inspection (if the property has not been valued previously).
- Access is required to external areas, common parts and facilities.
- The surveyor conducts a measured survey to assess the component areas.
- Takes details of building age, construction, layout, services, grounds, and outbuildings.
- Research accommodation to reflect additional features.
- Calculations using site measurements.
- Rebuilding cost indices from trusted sources (RICS) and in-house experience and cost analyses.
- Breakdown of Declared Value to include rebuild, fees, and demolition.
- Apportionment of estate sectors to reflect service charge and insurance policy splits.

Why are they important?

- To mitigate the risk of under or overinsurance.
- To establish the correct premium.
- Reports are prepared by experienced and qualified surveyors.
- Reports backed by the surveyor's Professional Indemnity Insurance cover.
- Most Insurers will not pursue an 'averaging' claim if the property has been assessed by a surveyor within the last 3 years.
- Reduced fees for sites previously inspected by the team.
- Bespoke reporting tailored to property and client needs. To avoid the 'Condition of Average'. The potential risk of 'averaging' is set out in the below example.

Averaging Clause Example

The following equation applies to averaging claims:

$$\frac{\text{Declared value on date of claim}}{\text{True declared value}} \times \text{Loss amount (maximum is up to DV on insurance policy)} = \text{Amount payable}$$

1. A property has a declared value of £2,000,000 on its insurance policy at the time a total loss occurs.	*2. The insurer suspects under-insurance and appoints a third-party reinstatement cost assessment, which determines that the true value is £4,000,000.*	*3. Using the above formula, the insurer would only pay out £1,000,000, which leaves a £3,000,000 deficit in the overall cost to reinstate the building.*

Who would cover the cost would likely depend on the covenants within the lease. It is important that a property manager has the correct level of cover in place to avoid situations such as this. RICS recommends that reinstatement cost assessments be reviewed in line with inflation annually and that formal reassessments be carried out at least every three years.