The Insurance Institute

Personal General Insurance

CIP-03 KEY POINTS

Advancing *Your* Career.

CHAPTER 3

DEFINING 'BUILDINGS' AND ESTABLISHING AN INSURABLE VALUE

In practice, the **homogeneous** nature of household risks means that very few require any information to be provided beyond the completion of a proposal form.

However, if a risk contains any unusual features the adviser may require additional information in order to obtain the best cover and price.

There is no such thing as a standard policy document and different insurers offer a different range of covers, wordings and excesses, and the definitions and limits they use also vary.

Defining 'buildings'

Insurers usually define two terms in their policy document: 'the home' and 'buildings'.

- The home – the private house, bungalow, flat, maisonette or self-contained purpose-built apartment at the address shown in the schedule
- Buildings – outbuildings, fixtures and fittings, swimming pools, greenhouses, terraces, footpaths, patios, drives, walls, fences and gates within the boundary of the home.

There are differences of approach in relation to items such as interior decorations, tennis courts, decking, hedges and septic tanks.

Service piping and cables are generally not defined as part of the building, but are listed separately as being covered for accidental damage.

Defining 'standard construction'

Insurers pay close attention to the construction of buildings and create a range of rates for 'normal' or 'standard' risks.

If a building is constructed with elements that fall short of the standard, underwriters will factor the additional risk into the pricing of the risk.

Construction information should note any adverse features such as non-standard or combustible elements, linings, perspex and glass, as well as any unusual materials used in the building design. Other key factors are communication with adjoining buildings/multi-occupancy.

Other definitions found in household buildings insurance policies

- Family
- Household
- Premises
- Unfurnished
- Unoccupied
- You.

Establishing insurable values for buildings

The basis for setting sums insured is normally the full cost of reinstating (rebuilding) the property.

When an insurer accepts a claim on this basis, it will settle it without making a reduction for wear, tear, loss in value or deterioration, provided the building is in good repair and the sum insured is not less than the full cost of reinstatement.

The Society of Chartered Surveyors Ireland (SCSI) provides a house rebuilding calculator and publishes a reference guide on house rebuilding costs, which outlines minimum values for which the structure of a house should be insured.

However, there are other costs that need to be added, including:

- boundary walls
- garages
- fitted kitchens
- outbuildings
- swimming pools
- drives
- surveyor/architect/quantity surveyor fees
- value added tax (VAT).

There are many factors that need to be allowed for in establishing the buildings sum insured:

- relevance of market value
- index linking
- building regulations.

DEFINING ‘CONTENTS’ AND ESTABLISHING AN INSURABLE VALUE

Defining ‘contents’

The typical definitions that appear in contents insurance policies include:

- Contents
- Credit and debit cards
- Home office equipment
- Money
- Valuables (also termed ‘valuable property’).

The following items are not usually regarded as property for household contents insurance purposes:

- documents or securities (stocks and shares) valued at more than a specified amount
- medals or coins
- caravans, watercraft, motor vehicles or trailers, or parts/accessories for any of them
- any living creature or plants, trees or shrubs
- property used or kept for business, trade or professional purposes
- property more specifically insured.

Establishing insurable values for contents

The basis for setting the sum insured on contents should be the full cost of replacing the contents, as new, after allowing for deterioration on items not covered on a 'new for old' basis.

For owner-occupiers, there are variations in the method of arriving at a sum insured. Insurers tend to offer 2 different approaches:

- The sum insured is selected by the consumer.
- The insurer offers a choice of contents sums insured that represent a percentage of the buildings sum insured.

All insurers reduce claim payments if there is underinsurance. They may apply a:

- pro-rata average condition
- deduction for wear and tear.

Whichever method is used to arrive at the insurable values for contents, it is imperative that the sum insured is adequate.

'New for old' values are needed for all items covered in this way and an allowance should be made for wear and tear for those categories where the policy cover is limited.

If the policy is not index-linked, an allowance should be made for the anticipated level of inflation during the policy period, if appropriate.

QUESTIONS TO ASK THE CONSUMER AND WHY

These questions must prioritise areas where distinctions between products are likely to be meaningful for the consumer.

While certain information will be obtained from the generic fact find, further specific information can be divided into 3 categories:

- the home, its ownership, structure and location
- the cover, sums insured, values and limits required
- specific questions prompted by different insurers' approaches to cover (particularly the wording of their exclusions).

For affluent (high-net-worth) individuals a more detailed approach will be needed, more akin to the formalised risk management approach that characterises many commercial insurance risks.

No claims discount

Typically, insurers offer no claims discounts (NCD) for successive claim-free years on a household insurance policy. For example, 10% for 1 year, 20% for 2 years, 30% for 3 years.

Insurers offer these discounts to encourage the loyalty of their policyholders who represent the better-performing risks they insure. UP until recently, household insurance scales of discounts would reduce to 'nil' if a claim was paid, regardless of the number of previous claim-free years, and there was no option to purchase a 'protected' NCD. However, due to competition in the household insurance market, some of the main insurers are now offering step-back or protected NCDs.