

## HOW DO I KEEP THE SUM INSURED UP TO DATE?

The sum insured must be adequate to cover the rebuilding cost of the building at the time reinstatement of the building is completed, not just at the time of damage.

Once the initial figure is established most policies for residential buildings include a provision for automatic indexation of the sum insured both during the period of insurance and also during the period of reinstatement. If indexation is not provided under the policy then the appropriate allowance in respect of the likely effect of inflation during the period of insurance and during the period of reinstatement of any loss must be included within the sum insured.

Because of the wide variation in building styles and materials the original building valuation should be reviewed every 5 years to ensure that it remains adequate.

## WHAT HAPPENS IF I UNDERINSURE?

If the sum insured proves to represent less than the rebuilding cost of the property then the Insurance Company may well reduce the amount of the claim proportionately. This is known as the application of average.

For example:

a) Amount of claim	£ 300,000
b) Sum Insured	£ 500,000
c) Full rebuilding cost of entire building	£1,000,000

Claim settlement (b)£ 500,000 / (c)£1,000,000 x (a)£ 300,000 = £150,000

In the case of policies issued by the Ecclesiastical Insurance Office where the sum insured has been agreed by them at the outset and has subsequently been increased to allow for inflation in line with their advice then average will not apply. The liability of the company however is always limited to the sum insured.

## WHAT DO I NEED TO TELL INSURERS?

An insurance contract is based upon the principal of utmost good faith. This means that you must supply the insurance company with as much information as you can which may have a bearing on granting of insurance cover, as accurately as you can. The completion of a proposal form or application is a vital part of this process.

If you do not advise Insurers regarding a relevant or "material" fact the policy may be considered void and any claims declined. Examples could be that the property has previously suffered from movement or the area is prone to flooding.

This advice and information is given in good faith and is based on understanding of current law and practice. Neither Ecclesiastical Insurance Office plc nor its subsidiaries nor Broker Network Holdings plc nor its subsidiaries accept any liability whatsoever for any errors or omissions which may result in injury, loss or damage, including consequential of financial loss. It is the responsibility of the Insured or any other person to ensure that they comply with their statutory obligations and any interpretation or implementation of the above is at the sole discretion of the Insured or other party who may read these notes.

# Listed Buildings

## THE INSURANCE OF LISTED RESIDENTIAL BUILDINGS

### INTRODUCTION

These Guidance Notes outline the issues which need to be considered when insuring an historic building in residential occupation.

Buying a house is usually the largest single purchase most people make in their lifetime. It is essential that adequate insurance is arranged in order to protect this investment. Insuring a Listed Residential Building is essentially no different from insuring a modern building. The difficulties usually arise from deciding how much to insure. Specialist advice should always be obtained.

The following notes relate to listed buildings in private residential occupation. Additional considerations apply to buildings which are unoccupied, or in commercial occupation.

### AM I LEGALLY REQUIRED TO INSURE A LISTED BUILDING?

Legislation relating to listed buildings makes no reference to the need to take out insurance. The legislation does however impose various duties and limitations upon the owner of the listed building regarding the repair, maintenance or demolition.

The prudent owner therefore regards adequate insurance of the building as essential, not only to protect their home, but also to enable them to meet their statutory obligations. You may also of course be required to insure the property under the terms of contract or agreement such as a lease, loan, mortgage, investment portfolio, trust, or some other legal arrangement.



### WHAT RISKS SHOULD I INSURE AGAINST?

You may be required to insure the property against certain risks under the terms of a lease, mortgage or loan. In insurance terminology these are referred to as "perils".

Most mortgage providers will require at least 'Comprehensive' cover and in some cases 'All Risks' cover. Where there is no mortgage or lease then the level of cover can be selected by the building owner. 'Comprehensive' cover provides protection against the major risks which cause damage to buildings. These typically include:

- Fire
- Lightning
- Explosion
- Aircraft
- Burst Pipes
- Malicious Damage
- Theft
- Subsidence
- Storm & Tempest
- Landslip
- Flood
- Impact by Road Vehicles

Other perils are also included but vary from company to company. It is therefore important that individual policies are carefully examined to ensure the appropriate cover is being offered.

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## WHAT RISKS SHOULD I INSURE AGAINST (CONT...)?

'All Risks' cover provides cover against any kind of loss or damage unless it is specifically excluded. Exclusions vary but typically policies exclude:

- Rust
- Dust
- Insects
- Vermin
- Fungus
- or any gradual cause

Cover can sometimes be arranged for a range of restricted perils but the saving in premium is not always as great as might be expected. Most of the premium relates to the major risks of Fire, Storm, Flood, Malicious Damage and most residential owners would not wish these to be excluded.

## WHAT TYPE OF REBUILDING COVER SHOULD I SELECT?

The object of an insurance policy is to place the insured in the same financial situation after the loss as they were in immediately prior to the loss. The sum insured under the policy should be based upon the rebuilding cost of the property and represents the limit of the insurance company's liability in the event of loss.

Three types of cover are available for residential buildings.

- **REINSTATEMENT COVER**

This cover provides for the rebuilding of the property to the same design and the same quality as the original and in accordance with current building regulations. Partial losses would be dealt with in the same way, covering repair or rebuilding of the part of the building damaged or destroyed.

This is the usual form of cover for historic residential buildings.

- **INDEMNITY COVER**

This provides for rebuilding as above but a deduction would be made in respect of any existing 'wear and tear'. This is known as betterment. In other words an amount is deducted from the settlement to take into account the condition of the premises prior to the damage.

This form of insurance is not recommended for residential buildings, as it can result in the owner having to finance a significant part of the cost of repair themselves.

- **FIRST LOSS COVER OR AGREED VALUE**

With this type of cover the sum insured is based on an estimation of the cost of the largest single loss resulting from a single event. This single loss is usually based upon the total loss by fire of the largest building within a group of buildings, or the area of a single building, which would be destroyed whilst leaving a significant area of the remainder undamaged. The policy cover is limited to the amount selected and in the event that the damage exceeds this amount the excess cost would fall upon the owner.

This form of cover is only suitable for large estates with several buildings, or very large buildings where only a relatively small proportion would be destroyed.

In all cases the Insured is under a duty to ensure that the building is properly maintained and kept in a good state of repair.

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## HOW MUCH SHOULD I INSURE THE BUILDING FOR?

The sum insured should represent the cost of reinstating the entire structure if totally destroyed. This envisages replacement with a building of equivalent quality, design and style whilst complying with current legislation.

The figure should also include an allowance to cover temporary site work to protect the building and adjoining properties after damage. The costs of archaeological excavation, recording of conservation, demolition, removal of debris, Architects, Surveyors and other professional fees incurred in the rebuilding also need to be included. With historic buildings it is important that all the various elements of the building including fixtures and fittings, external boundary walls and railings etc are also included within the sum insured.

Historic buildings tend to be more expensive to repair than modern buildings of similar size. Whilst in the event of total destruction a modern property may be permitted on the site, in the event of a partial loss rebuilding in the same style as the original may be required. It is not uncommon for the cost of major restoration following a partial loss to far exceed the cost of an equivalent modern structure. Most losses are partial, resulting in the need to restore only part of the total structure.

Following damage an owner's freedom of action can be limited by legislation, which seeks to protect the structure and site. Consequently the time taken to restore an historic building is likely to be longer than a modern building. Typically an average listed residential building can take from 12 to 24 months to restore. If provision for inflation during the period of insurance and rebuilding is not included under the policy then an allowance in this respect must be made within the sum insured.

In most instances, therefore, it is appropriate to base the sum insured upon the total rebuilding of the existing structure.

## WHO CAN HELP ME DECIDE THE SUM INSURED?

It is important that appropriate specialist advice is sought when deciding the sum to be insured. The use of the BCIS Guide to House Rebuilding Costs is likely to be inappropriate as this relates to buildings built after 1901.

Chartered Quantity Surveyors, Chartered Surveyors and Architects with experience in historic buildings can provide such advice. Prior to appointing such a consultant it is important to establish their level of experience with listed buildings, the basis of their valuation and the fee they will charge.

The Ecclesiastical Insurance Office also provides advice regarding the sum to be insured for their policyholders. This advice is free to policyholders but is provided for insurance purposes only and represents the limit of liability under the policy.

Further information can be obtained from:

[The Royal Institute of Chartered Surveyors \(www.rics.org.uk\)](http://www.rics.org.uk)

[The Royal Institute of British Architects \(www.riba.org\)](http://www.riba.org)