

RESIDENTIAL: what are the risks of underinsurance?

On 27th July 2023 BCIS held a webinar entitled ‘Residential: what are the risks of underinsurance?’. During the webinar, attendees had the opportunity to submit questions, but due to the volume of questions asked, time ran out to provide answers.

Below is a selection of the questions submitted, with answers from BCIS.

Q: Should insurance now cover some tenants' belongings that can't be stored outside – such as unsafe electric bikes and scooters that are kept within a property? As these items have caused loss of life and loss of family homes.

A: The risks covered will be stated in the insurance clauses and there are limits and exclusions to every policy. While buildings insurance will usually protect against the more common risks of flood, escape of water, fire, storm damage, etc, the risks posed by tenants' activities are usually covered at an additional premium.

Q: I am a surveyor, and we have to perform rebuild valuation using the online calculator. For a standard property, what rate should be applied – excellent, good or average?

A: For most dwellings, the Good (i.e. Average) quality should apply. Watch out for high quality fabric specification – namely, facing brick, windows, roof tiles and enhanced fittings and fixtures – as these features could be best accounted for by the Excellent band.

Q: Why does the RICS and BCIS not have a template for insurance reinstatements?

A: The best "template" to follow is the calculator on [BCIS Rebuild Online](#). It goes through all the calculation stages and provides a check list and cost guidance on almost all features you need to prepare a rebuild. The RICS also published guidance on carrying out reinstatement assessment, see <https://www.rics.org/profession-standards/rics-standards-and-guidance/sector-standards/building-surveying-standards/reinstatement-cost-assessment-of-buildings>

Q: I know this webinar is focused on domestic properties, but what rates/tools should be used for non-domestic dwellings – for instance, a warehouse building with an office?

A: BCIS publishes average building costs which could form the basis of an assessment. However, these have to be adjusted and, in some cases, it may be necessary to use more detailed calculations, based on similar cost analysis or repricing approximate quantities.

Q: What level of uplift should be applied for listed buildings?

A: The BCIS Rebuild calculator is not appropriate for most older (pre-1800), complex, or listed buildings of any age. These require a more detailed approach and for historic/listed buildings, there is the added requirement to replace like for like. The most accurate estimate is likely to be obtained by defining and quantifying all components and elements of the building and assessing their rebuilding costs.

Q: Where can one obtain insurance data for some analysis?

A: [BCIS Online](#) has some of the most comprehensive data on reinstatement costs.

Q: Regarding betterment – if it's necessary to rebuild using modern materials to comply with building regulations, how does one avoid a charge of betterment?

A: The reinstatement cost should cover the rebuild of the property to a similar design of the original and to current building regulations. Most building insurance is based on this principle, as long as the original was in line with building regulations at the time it was built.

Q: Will indexation continue to increase, or is this likely to reduce over coming months?

A: The index will go up and down in response to changes in market conditions. The improved availability and a general stabilisation of material prices has slowed down the rate of increase, but it went up in July, in response to wage increases.

Q: How would you deal with a House in Multiple Occupation (HMO)?

A: The Rebuild calculator is not suitable for HMOs but could be used as a starting point for the estimate. For HMOs, reinstatement cost should reflect the more complex nature of the property or multiple-unit configuration, with appropriate allowances made for additional features and facilities, such as multiple kitchens and bathrooms.

Q: Can you confirm what the acronyms HRCI & GBCI stand for?

A: HRCI is the [House Rebuilding Cost Index](#) published by BCIS, in conjunction with the ABI (Association of British Insurers), to measure rebuilding cost inflation for dwellings. GBCI is the General Building Cost Index that tracks general construction cost inflation.

Q: How can you best explain to a customer why they need an on-site revisit after 5 years for a review of their RCA, when it has been previously visited, as opposed to just updating the figures?

A: The index used to update the sum insured is a national average index that's suitable for use over short periods of time. However, they tend to drift after a few years as it will not fully reflect local pressures.

Q: There is a huge difference between Good and Excellent. How do we know which quality should be used? I often split the difference - is that acceptable?

A: Good reflects the average specification of volume-built dwellings and should form the basis of most dwellings. The Excellent band includes higher quality fabric specification to walls, windows and roofs (including steeper roofs), and enhanced internal fittings and fixtures like kitchens and bathrooms. However, there are no cost boundaries and there is a continuum from basic. Excellent is not even for high end architecturally designed dwellings.

Q: Can BCIS be updated to include piled solutions with basements on properties? The Build Contract value can be vastly different to what is found on BCIS reinstatement calculations.

A: The BCIS calculator provides cost guidance for piled foundations, area basements and cellars. However, we are still in the process of evaluating appropriate guidance for basements.

Q: With the rise of AI and new platforms, is there a place for automated valuation models calculating declared values for clients, instead of a traditional RCAs process?

A: BCIS is continuously using technology to develop new products, so watch this space! However, any prefilled data still needs to be verified by the assessor, as they have the ownership of the valuation.

Q: You said VAT should not be included on assessments for dwellings, on the basis that it will not apply for new build works. However, what happens if there is only a partial loss and, as such, VAT will apply on the construction works?

A: VAT applies to almost all services – remedial construction work to partial loss are no exception. However, the industry basis of a Reinstatement Cost Assessment is the cost of totally rebuilding the insured property, which is zero rated for dwellings. Insurers will adjust their risks accordingly.

Q: Should land cost be included in rebuilding cost assessment?

A: Land costs should not be included in rebuilding assessments as the reinstatement will be on the same site. Inclusion could lead to over insurance.

Q: Are there many cases of over insurance, where index linking has occurred over a number of years?

A: Index linking for a long period of time can also result in over insurance if costs in the given area are changing at a slower pace than the national average, as measured by the index. The opposite is also true.

Q: Are there training courses available for specialist properties, e.g. listed or unique properties? If so, how does someone get qualified in this area?

A: There are courses provided by the RICS and other third parties, but most concentrate on providing an understanding of the issues relating to historic architecture and conservation.

Q: With new build developments we usually use the recent contract sum with a Tender Price Index uplift from the contract base date. Is this correct? You noted ABI should be used.

A: It is perfectly reasonable to uplift new developments with TPI for the first few years. However, the BCIS TPI is a general index i.e. it covers a wide range of buildings and all types of construction and any regulatory changes. In particular, any changes in building trends specific to dwellings will be reflected adequately. The rebuild value will drift with time.