



MATERIAL DAMAGE

Cover includes loss or damage arising from:

fire, lightning, earthquake, explosion, aircraft, riot, civil commotion, strikers, locked-out workers, persons taking part in labour disturbances or malicious persons, storm, flood, falling trees, escape of water from any tank apparatus or pipe, falling trees or aerials, breakage or collapse of aerials or satellite dishes, impact, leakage of oil from heating installations, theft or attempted theft, accidental breakage of glass and sanitary fittings, subsidence, ground heave and landslip, and accidental damage.

The definition of buildings includes:

outbuildings and garages, walls, fences, paths, gates, hedges and patios, interior decorations, aerials and masts, car parks, cesspits and septic tanks, swimming pools, tennis courts, squash courts, and gymnasias on the premises.

Property Owners policies can be issued on a 'Specified Perils' basis or an 'All Risks' basis. Specified Perils policies list the perils covered as above. All Risks policies will essentially cover the same perils, however the policy is issued to show only the exclusions rather than the inclusions.

Some Property Owners policies are on an 'Indemnity' basis. This means that the insurer will place the policy holder in the exact same economic position they were in prior to the loss. For example, if a five year old door is damaged, insurers will only pay out for the cost of a second hand door, instead of replacing it with a new one.

THE DECLARED VALUE VS SUM INSURED



The Declared Value is the total cost to rebuild the property (including all fixtures and fittings, car parks, pavements and similar property for which you are responsible) at the inception or renewal date of the policy. It should also include an allowance for professional fees, debris removal costs and VAT.

VAT

In the event of a property requiring a complete rebuild, VAT will not apply to the rebuild costs, however, we are now in receipt of underwriters advices and are consequently able to confirm that in the event of a partial loss, where VAT had knowingly not been included in the overall building's Declared Value, insurers would not make any payments in respect of VAT. Although unlikely to be an issue for small claims, this could lead to potentially significant reductions in payments on larger partial losses.

With this in mind, we would strongly recommend that VAT is included in the overall buildings declared value, ensuring that any contention in respect of partial losses is averted.

This Declared Value figure is then subjected to Day One Average or Day One Uplift. This new enhanced value is called a **Building Sum Insured**.

INFLATION RATES

In the late 1970s and early 1980s the UK experienced very high inflation rates and, at times, the annual rate of inflation approached 25%. This had very serious implications for both insurers and policyholders. High inflation is a particular problem for property owners. In the event of a serious fire it is usually necessary to obtain planning permission before rebuilding commences. This can take many months and sometimes over a year.

If you fixed your Declared Value at renewal and the fire occurred on the 364th day of your policy and it took a year for planning permission, and a further year to re-build, the original sum insured would be three years out of date. If the country experienced a 20% inflation rate this would be disastrous.

For example, using an Inflation rate at 20%:

- ◆ Correct sum insured at renewal £100,000
- ◆ Re-building cost at end of year one £120,000
- ◆ Re-building cost at the end of year two £144,000
- ◆ Re-building cost at the end of year £172,800

This is a discrepancy of £72,800.

To protect policyholders from this situation, several inflation protection measures were introduced by insurers.



DAY ONE AVERAGE

There are several variations to this additional cover, but essentially it requires you to provide a Declared Value at each renewal and this is used as a basis of cover for the coming year. The clause then states that the Declared Value can be increased by up to an additional 50% of this value - this is known as Day One Average. The usual limit is around 25-35%.