

What is Index-linking?

Index-linking is a percentage that is applied to the **Declared Value** of the property at each renewal to ensure that the value remains relevant through changes in inflation and rebuild costs. It is recommended that Rebuild Cost Assessments are undertaken every three to five years in order to ensure that the Declared Value of a property is adequate. This serves to prevent underinsurance which can negatively impact a claim.

How is this calculated?

The percentage of index-linking that is generally applied is based on recommendations by the Royal Institute of Chartered Surveyors (RICS) and it is the Building Cost Information Service (BCIS), who operate under the umbrella of RICS, that supply these to insurers. The index-linking amount tends to fluctuate month on month as it is constantly updated and reviewed to ensure that the values are as relevant as possible.

The way that index-linking is calculated is not purely on the general rate of inflation and includes allowances for the cost of items relating solely to the re-building of the property, which can vary for residential and commercial buildings. There are multiple elements that are considered within the rebuilding costs, and these include:

- **The cost of labour**
- **The cost of materials**
- **The cost of professional fees**
- **The cost of debris removal and site clearance**

What is the index-linking percentage currently?

Index-linking rates continue to level out and gradually reduce.

We are now seeing some insurers with levels as low as 1.53%, the highest being 4% for residential properties, while commercial properties remain between 3% and 4% across most insurers.

What does this mean for you?

This may constitute an equivalent increase in premium as the value of a property is increased. It must also be noted that index-linking is applied in addition to any rate increases and so it would be prudent to ensure that any budgeted amounts are taking both of these elements into account.

More information

If you wish to discuss this in more detail, please speak to your account manager or email info@alexanderbonhill.co.uk