

Insurance Reinstatement Valuation Explained

The purpose of insurance is to protect the building owner against the unwanted and the unexpected.

The principle - if a loss occurs, the building owner, the insured, should be put back in a position comparable to that before the loss occurred.

Reinstatement is the method normally applied to houses and flats and blocks of flats. It reflects the cost of replacing the building irrespective of its age, size or suitability. It might be described as "New for Old".

Reinstatement cost has been defined as: The cost of demolishing and clearing away the existing structure and rebuilding it to the existing design in modern materials, using modern techniques, to a standard equal to the existing property and in accordance with current Building Regulations and other statutory requirements.

Average

The "rule" by which, if the building owner has his sums wrong, he can expect the insurers to pay only a percentage of the loss.

Therefore, if the building is only insured for half of what it would cost to rebuild, the payment will be half of the loss.

The rule applies even if the claim is well below the sum insured.

Reinstatement Cost (correct) £2,000,000

Building Sum Insured (actual) £1,000,000

Claim £ 100,000

Payment £ 50,000

The building owner is assumed to have insured the difference himself with the premium he has saved.

If, however, the building is over-insured the reverse does not apply and there is no profit, simply a wasted over-payment of premium.

It is therefore worthwhile ensuring that the reinstatement cost is correctly calculated, by an RICS qualified surveyor.