The Importance of a Correct Property Valuation

What is the importance of correct property valuation? Don't forget to regularly check that your sum Insured is adequate to cover major damage to your block.

n recent years and as reported in the press, there have been some very serious fires in blocks of flats in the UK. Following the recent storms and with the advent of the usual winter related claims, many property owners will be looking to claim the repair or reinstatement cost from their insurance company.

Most claims will be relatively minor and settled quickly in this highly driven service market without insurers questioning the adequacy of the sum Insured. However, larger claims will be subject to close scrutiny and a proportion will be found to be significantly underinsured, resulting in a consequential shortfall in the amount paid by the insurance company.

Of all the valuations involving billions of pounds worth of property, more than 75% of properties are found to be under insured.

The reasons are many and varied but often the origin of the sum Insured is totally unknown. Some rely on inappropriate advice, rules of thumb or market value or just take the view 'it will never happen to me'.

In addition, the inclusion of VAT is also often misunderstood and overlooked.

Sometimes there is simply a failure to update a previous valuation or the fear that if the building is valued and there is an increase, there will also be an increase in the premium. In fact, any premium increase will be insignificant compared to the potential financial impact of under insurance in the event of a major claim.

Although very comprehensive in their cover, most insurance policies that deal with blocks of flats are subject to the Condition of Average, which means that in the event of underinsurance and partial damage, the amount paid will be in proportion to the degree of underinsurance - see example to follow.

In addition to the financial penalty, which can be devastating, underinsurance can also lead to disputed, protracted discussions and of course delay in reinstating the building. Any additional costs resulting from such delay will not be covered by the insurance policy.

Are You Adequately Insured?

- A block of 15 flats is Insured for £2,000,000.
- The development should have been Insured for £3,000,000.
- Major damage occurs to the value of £600,000.
- Due to underinsurance, insurers invoke the Condition of Average and pay only two thirds of the loss in proportion to the degree of underinsurance i.e. £400,000; resulting in a shortfall of £200,000. Leaseholders have to find £13,333 each in order for the repairs to commence.

Don't forget that if there is a total loss, the policy will only pay up to the sum Insured, resulting in an even larger shortfall.

We recommend a reinstatement cost revaluation is carried out by a Chartered Valuation Surveyor every 5 years.

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Registered in England & Wales CRN: 03874789
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