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PROFESSIONAL OPINION Bill Gloyn

Embrace reinstatement valuation to alleviate grudge dread

Nobody likes spending money on something that appears to have little value. For many, insurance comes towards the top of the list. It is a grudge purchase, along with parking fines, road tolls, indeed, most taxes.

However, for some, the value of insurance becomes very clear when disaster strikes. It may be damage to property with subsequent loss of income, or some accident to a third party with a writ in hot pursuit. Then the begrudged premium starts to be worthwhile, especially if the insurance claim proceeds well and is settled with the minimum of hassle. Thankfully, in the main, claims do get sorted out satisfactorily – insurance is a mature and essential element of commercial life, especially if you deal with players who know the score.

Property owners need to take time over their insurance. Owners and valuers are both reluctant to undervalue the cost of reinstatement, but the upshot is that many owners are paying too much.

One of the elements of insurance that is particularly important for real estate is getting the values right.

Among other factors, the insurers base their premium on the amount at risk – the sum insured – and it is the policyholder's duty to ensure that it is adequate.

It is also the landlord's duty to ensure the tenant is charged the correct premium, and the borrower's duty to the bank to ensure there is no shortfall in claims proceeds. That shortfall might be amplified because the insurer can reduce the amount of any claim by the proportion that the property is underinsured. This is a basic principle of insurance known as "Average".

Most prudent property owners, without in-house expertise, employ a firm of professional valuers to prepare the reinstatement valuation for them. Indeed,

leases will usually allow for the cost of that valuation to be recovered from the tenant – provided that it is done at reasonable intervals. As well as providing independent evidence that the various duties have been met, it also provides a reasonable opportunity for legal action if the valuer gets it wrong – at least if it is too little.

For overvalued properties, too much of a premium is being paid by owner and tenant

I have seen several examples in the recent past, one involving a very large claim, of a valuer getting it wrong by overstating the sum insured. Tender prices and building costs have fallen quite substantially and, according to the latest figures I have seen, look as if they will remain that way, even though the fall is levelling off. So, it appears that we are not dealing with a flash in the pan that will have a sharp correction in the near future.

Not surprisingly – with a fear of under-insurance on one hand or undervaluation

on the other – both property owners and valuers are reluctant to reduce the figures. The inevitable outcome is that, for overvalued properties, too much of a premium is being paid by owner and tenant. That does not seem to be very smart. The insurers will never pay out more than the actual cost of reinstatement – even if the sum insured is much higher. They have no obligation to check the accuracy of the values insured or refund premiums if sums insured are found, in retrospect, to be too high.

Yet again, the message is to take an interest in your insurance and, in these difficult times, to ensure value for money by getting values right.

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