

Value At Risk (VAR) - Setting The Correct Sum for Private Domestic Policies

Introduction: We are all aware of current construction inflationary factors and the worry must be that existing sums insured will be “*challenged*” in the event of a loss or claim where the original sum insured has become out of date and has failed to reflect year-on-year inflation.

The general definition of any wording in a “Private Dwelling” context should typically translate to the following insurable items when setting a correct sum insured: -

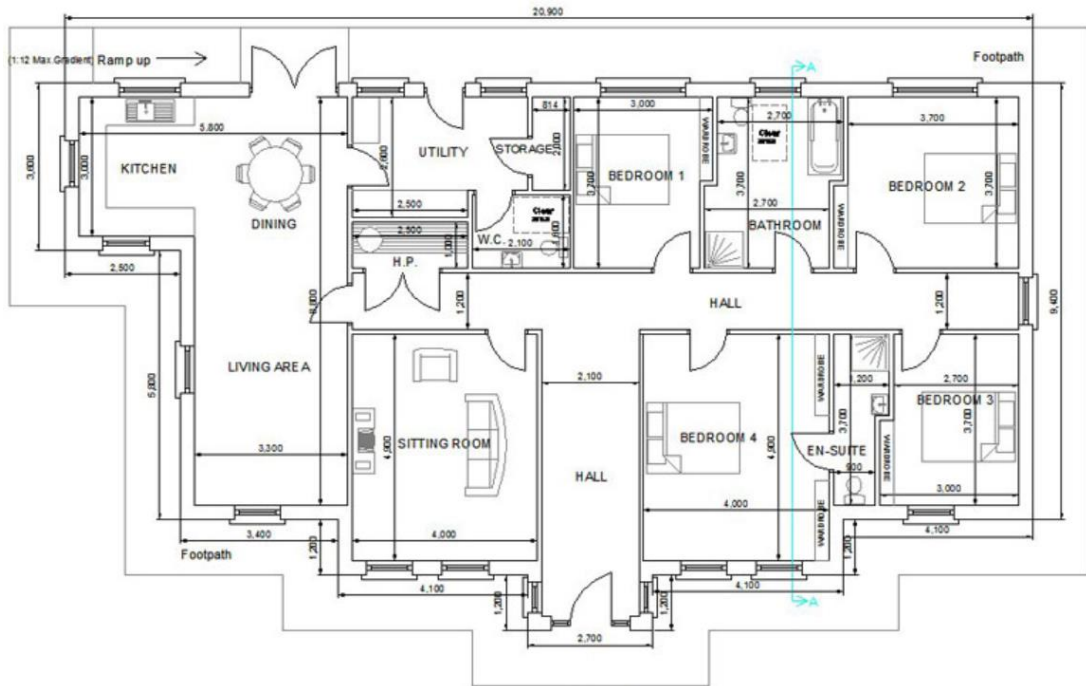
1. The gross internal floor area (GIFA) i.e. (basement /ground / first floor / second floor) of any dwelling etc. i.e. the internal square metre footprint of the property across all levels.
2. Domestic Outbuildings / Structures i.e., garages, garden rooms, home offices, patio areas, decking areas, pergolas, swimming pools, tennis courts etc.
3. Footpaths, driveways, boundary walls, pillars etc.
4. Vehicular & pedestrian entrance gates including automation systems.
5. Septic Tanks, Waste water treatment systems.

Most insurers and their Loss Adjusters will use annual costs published by the Society of Chartered Surveyors (SCSI) to validate or stress test a sum insured. Current rates published by the SCSI in September 2022 shows that national average re-build costs have increased by an Average of 21% over the past 12 months. Detailed hereunder are the latest costs for 2022:-

| House Type | No of bedrooms | Typical size per sq/m | Dublin | Cork | Galway | Waterford | Limerick | North West | North East |
|---------------------|----------------|-----------------------|--------|--------|--------|-----------|----------|------------|------------|
| Terraced Town House | 2 | 78 | €2,806 | €2,384 | €2,371 | €2,348 | €2,335 | €2,130 | €2,338 |
| Terraced Town House | 3 | 98 | €2,676 | €2,226 | €2,260 | €2,236 | €2,260 | €2,012 | €2,222 |
| Semi Detached | 3 | 98 | €2,735 | €2,337 | €2,306 | €2,298 | €2,270 | €2,055 | €2,285 |
| Semi Detached | 4 | 115 | €2,591 | €2,221 | €2,193 | €2,178 | €2,174 | €1,969 | €2,182 |
| Detached | 4 | 119 | €2,842 | €2,435 | €2,393 | €2,398 | €2,367 | €2,152 | €2,392 |
| Detached Bungalow | 4 | 137 | €2,445 | €2,193 | €2,187 | €2,066 | €2,087 | €1,926 | €2,082 |

In addition to house rebuilding costs, costs for garages range from **€19,500 for a single attached garage to €35,200 for a double attached garage**, on average. Note – The rebuilding rates quoted here – which include VAT – are for estate type homes only and should not be used for other house styles such as one-off homes in the countryside or period properties. The figures are a minimum base cost guide for house insurance purposes.

Working Example: Hereunder is a sample floor plan of a well finished bungalow of standard construction measuring **176/m²** with a detached garage, driveways, boundary walls and entrance gates in the **Waterford** area.



In terms of setting the correct sum insured the follow step by step guide out to be applied to ensure all items are included for: -

| Description | Area / m ² | Rate / m ² | Total |
|--|-----------------------|-----------------------|--------------------|
| Gross Internal Floor Area | 176 | €2,066.00 | €363,616.00 |
| Add for Domestic Detached Garage | 1 | Item | €19,500.00 |
| Add for above average Kitchen Fittings | 1 | Item | €15,000.00 |
| Add for above average Fitted Furniture i.e., wardrobes etc. | 1 | Item | €10,000.00 |
| Add for patio areas | 1 | Item | €5,000.00 |
| Add for driveways / boundary walls / entrance gates | 1 | Item | €20,000.00 |
| TOTAL PROPOSED VALUE @ RISK | | | €433,116.00 |

1. The figures allow for demolition costs, professional fees incurred in reinstatement and VAT at 13.5% on building costs and 23% on professional fees.
2. Professional fees have been calculated to cover the following services:
 - Building Surveyor/Architect/Engineer: prepare working drawings and specifications and administer the building contract.
 - Chartered Quantity Surveyor: invite and examine tenders, process payments and agree on final account.
 - Engineer: advice on structural issues.
 - Fees associated with the certification of the house under the Building Control (Amendment) Regulations 2014.

Average: We are all very aware of the implications of under insurance (average) and in simple terms it can have the following consequence where for example a claim was agreed in relation the above referenced property in Waterford (Sum Insured €250,000) for serious fire damage to the value of **€100,000.00**.

The current sum insured is set at **€250,000.00** versus the noted value at risk of **€433,116.00**. The implication of the average clause as follows:

Sum Insured: **€250,000.00** x Agreed Loss: €100,000.00 = Nett Amount Payable: **€57,721.26**
Value @ Risk: €433,116.00

As you can see the implication of **average** and **under insurance** has impacted the final settlement reducing it by **-€42,278.74** resulting in a serious deficit of funds for the policyholder.

The Solution? – a Value at Risk Survey: As indicated, these are base guidelines only and we highly recommend that your Clients have a full Value at Risk (VAR) survey carried out by this office and we can provide a fee estimate based on the current sum insured. For further details contact:

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