

Make sure sums insured are accurate, for both contents and buildings



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A friend of mine told me this week that he needed some building work done. He'd contacted numerous builders that he found online and after a bit of chasing, managed to get a single, solitary bricklayer to quote. In the ten minutes the builder was at the property, he took five calls on his mobile, gave a verbal quote that was four times higher than the average day rate, and said he'd send it in writing the next day.

Jumping into his van, the builder cheerfully announced, "I'm not the cheapest, but I am the best." My friend never heard from him again. In today's sellers' market, it seems the best builder is the one who actually rings you back.

At long last, the construction industry is beginning to open up again, and demand is already far exceeding supply. Good builders are in a position to pick and choose. Seeking only the most profitable work, outrageous take-it-or-leave quotations are par for the course. Who can blame them? After months of worrying about the solvency of their business, suddenly they have more offers than they can fulfil.

It does get you thinking about how inflation works in real-time, transaction-by-transaction, not as composite figures in quarterly or annual reports. E.g. the Consumer Price Index or the Construction Cost Index.

The Consumer Price Index is easy to calculate. Supermarkets constantly tweak pricing strategies across their various lines. Some things go up a few pence, other items become a little cheaper for a while. But generally, the only thing that changes about the item is the price paid at the checkout. The quality remains the same, and the basket changes so infrequently that when it does, it's a news story.

Construction output is the polar opposite. Building is such a diverse industry, and the outputs of which are seldom directly comparable to one another. As the OCED reports, "Given that both the inputs to, and outputs of construction activity constantly change, another problem in compiling construction price indices is that of ensuring comparability over time. Factors that influence such change include size, finish, style, equipment used, fashions, etc."

Compiling accurate indexes in a rapidly changing situation is tough, even with the luxury of hindsight. Even then, insurers have to take findings with a grain of salt, and consider their own index linking methodologies too: most, if not all, insurers in the Irish market index-link buildings and contents figures at renewal each year.

In buildings insurance, index linking is designed to make sure the sum insured reflects what it would cost to rebuild the house, with some wiggle room built in for changing economic conditions, such as inflation or spikes in costs.

For example, it has recently been reported that since Q1 2020, timber's wholesale price has risen 35%.

The market for timber is generally characterised by price cycles of +/-5%. According to constructionnews.ie, the 35% hike is caused by licensing issues related to the felling of Irish trees, Brexit stockpiling, and an explosion in demand for timber in the US housing market.

Rebuild cost may have come as a shock

It is been widely reported that over the last 18 months or so, the cost of a house rebuild has climbed by 5-9%, depending on whereabouts in Ireland you live. When you're dealing with the homes of high net worth individuals, an extra 5% can be a significant sum. Given that price inflation is reported retrospectively, but happens in real time, it is important that policies are written with this in mind. Underwriters have



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to design policies with the scope to react, and protect the client.

We all know that most properties are not regularly revalued, perhaps never, unless they're being sold. Index linking provides clients with a safety net, to avoid the dreaded average. Anyone who's ever seen a client's face when you have to explain to them they are only getting a percentage of their claim, I'm sure will never forget it.

If market conditions change midway through the policy period, the policy must be designed so that it provides the protection the client believes they are getting.

For their part, we need brokers to educate their clients that, in a post-pandemic world, there is potential for mid-term fluctuations in rebuild costs. Make sure sums insured are accurate, for both contents and buildings. Show your client you are well-informed and don't let it all come to light at the claims stage.

Many clients don't see the need for index linking, and often brokers question it too. But protecting against real time construction cost fluctuations is an important feature of any well written home insurance policy and compared to the sums insured and potential claims, the costs of index linking are generally very inexpensive.

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