How Is Your Insurance Premium Calculated?

You probably wonder when you ring around to review your insurance renewal terms why premiums vary so greatly for the same block. Well here's how it is done...

Firstly your property information will be requested including:

- the blocks construction i.e tile or flat roof, timber or concrete floors, timber frames, listed, modular build.
- the age of the building, if a purpose built block of flats or converted from a large house, hotel, mill etc into flats.
- occupancy (i.e. whether owner occupied or tenanted)
- whether there are any communal facilities such as tennis courts, gymnasiums, swimming pools, lounges or laundries.
- claims history or "losses" experienced during the previous three years.
- rebuilding cost (which will be stated on your current insurance schedule as declared value or sum Insured – (see our Insurance Terms Explained document).

Often information about the surrounding area will be requested, for example whether you are aware of flooding in the locality or if your adjacent properties have suffered from subsidence.

Once the underwriter has collated this information they will normally check the history of the area.

Subject to the block conforming with the Insurer's underwriting criteria most specialist intermediaries will have the authority to apply a "rate" to your reinstatement cost (Declared Value or Sum Insured – see over page for the explanation of these terms) as shown:

£1,000,000 (Declared Value/Sum Insured) x 0.080 (example insurance rate) = £800.00 + 12% (current rate) IPT (Insurance Premium Tax) = £880.00.

The premium quoted for this block would be £880.00. The variations in premium normally occur because each Insurers rate will be slightly different, dependent on their appetite for that type of business.

Variable excess options will normally be offered, for example, the quote above could be with a £100 excess. If the client preferred having no excess the premium would normally increase or could be reduced by requesting a higher excess.

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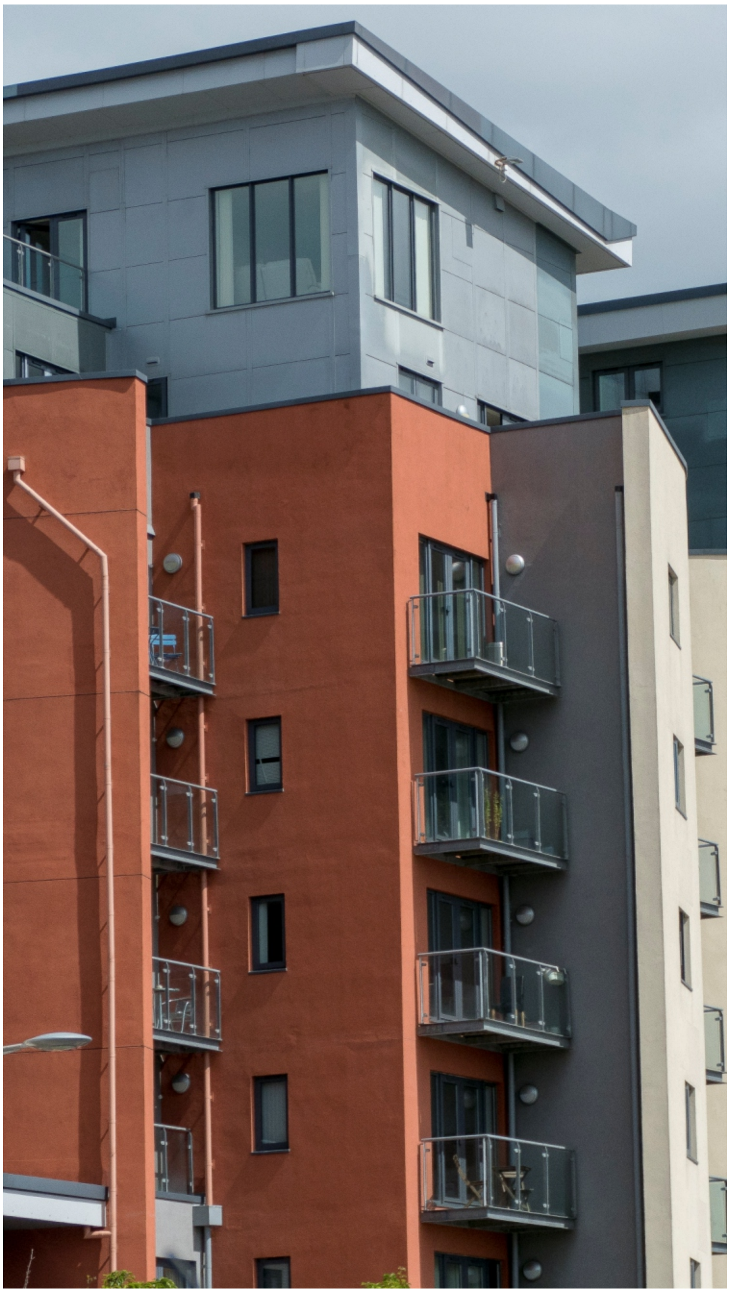

Declared Value

The Insured's assessment of the cost of rebuilding the property Insured at the time of inception of a policy or its renewal. This value, otherwise known as Reinstatement Cost, should also include costs of professional fees, debris removal and compliance with European and Public Authority regulations.

The Declared Value will have a Day One Uplift applied and this figure is normally shown as the Building Sum Insured. Both the Declared Value and the Buildings Sum Insured will be shown on your policy schedule, the Declared Value is normally the lower figure.

Sum Insured

The maximum amount payable in the event of a claim under an insurance policy.

When obtaining quotations you need to provide the Insurer with the reinstatement cost for your block. If your Policy Schedule shows a Declared Value AND Building Sum Insured it is the Declared Value that you provide. If your Policy Schedule only shows a Sum Insured then this is the figure that needs to be provided.

Although so far this doesn't look like "rocket science" underwriting an insurance "risk" becomes much more complicated when reviewing complex claims experience or unusual construction or a problematic location.

All information collected will be detailed on the Statement of Fact. You should check this information at inception of your policy and each renewal notifying your Insurer of any changes.

Ultimately the role of an insurance broker/ intermediary is to provide the best level of cover for each client whilst at the same time ensuring the insurance company provides a premium that is sustainable for both parties, based on the property and risk information.

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