Loss prevention standards

Business Interruption:

Rebuilding Period and Rebuilding Valuation

Factors that should be taken into account when deciding the likely rebuilding period and value, for a property. How this influences the Maximum Indemnity Period for Business Interruption insurance and the property values.

AVIVA

Rebuilding Period and Rebuilding Valuation

Introduction

When considering property insurance and the factors that can influence the Indemnity Period and Maximum Indemnity Period (MIP), one of the primary considerations should be to think about the building itself. If a building or site is involved in a loss, then depending on the size of this event and the subsequent damage, etc. it may mean that the site is catastrophically damaged and will need to be partially or fully rebuilt.

Considering this, the likelihood is that the building occupant will probably want to return to the rebuilt property, rather than occupy a different property. This maybe for one of the following reasons:

1) Property is owned by them
2) Lease requires the occupant to return to the damaged building
    - There is often a lease requirement that the tenant must return to the original property, providing that it is rebuilt within a specified timescale
        - In some cases, it may be possible to negotiate this requirement
3) Location of the property is beneficial to the occupants/insured's business
    - This is particularly relevant in retail, leisure, and some other sectors, where the business derives income from other aspects of the locality which brings customers to the area
4) Site is of historical significance to the occupant
5) There is no suitable alternative property

Following a loss event, such as a large fire, and having decided to return to a rebuilt premises, there are a number of factors that need to be taken into account in considering the likely rebuild period and the costs.

The building rebuild period can be split into the *pre-rebuild* and the *actual rebuild*. Factors affecting these areas should be considered when evaluating an Indemnity Period and the MIP.

For additional guidance, please refer to Aviva's Loss Prevention Standard entitled *Business Interruption Insurance – Indemnity Period and Maximum Indemnity Period.*

Note: Having incorrect building and property values declared as part of an insurance policy and subsequently suffering a loss, may result in a property being considered as under insured. If this is the case, then this may impact the time taken to rebuild a property, due to a claim not being settled in full and the condition of 'Average' applying to a policy. As a result, accurate and up to date building evaluations and building values are critical. Please refer to comments later in this document for further guidance.

An example of 'Average' is as follows: If fire damages a property causing repairs costing £100,000 and the building's total declared reinstatement insurance value is £1 million, most owners may assume they have more than adequate cover to pay for this loss. However, if an insurer establishes the actual cost to rebuild the property is actually £1.2 million, there is inadequate insurance cover in place and the insurer may reduce the claim via a 'condition of average' clause. If this does apply the claim settlement will be reduced by the same proportion as the amount of 'under' insurance, so in this case 20%.

Pre-Rebuild

Before rebuilding can commence following a loss, there are several areas that should be considered.

Post-Incident Investigation Time

Large losses, particularly fires, may require formal investigation by the Fire Service, the Police, the Health & Safety Executive, or the Insurer to establish cause and liability. This may be particularly relevant if there is anything suspicious in the loss event or if there has been injury or loss of life. In this case, the site may then be designated as a crime scene, which could delay the following processes for some months. In any case the need to establish the events of the incident and root causes will be critical.

The remains of the damaged buildings may be structurally unsound and will need to be made safe before the site can be investigated or as below accessed for clearance. In some instances, this can take months and in some cases years.

The site may be also be contaminated and require specialist contractors using protective equipment to clear the site, and this can be time consuming.

- If asbestos-containing materials are present within the building, the premises may be contaminated with airborne asbestos fibres/dust
- Depending on the nature and occupancy of the site, the processes undertaken may lead to contamination from other materials, reactions with fire water or as part of the products of combustion

Site Clearance

Following the investigations and any decontamination, the site will need to be cleared. This could be a partial clearance through to full clearance and depending on the loss event could include work on the foundations or base plate.

This phase could be impacted by the nature of the construction, the debris, and the physical size of the building/site to be cleared, etc. Consider a high-rise building with multiple basement levels in a congested metropolitan area versus a single storey building in a rural area; the time taken to clear each site will be dramatically different.

Variables that could impact the site clearance phase include:

- Size and height of the building
- Location of the building in relation to other buildings or yard storage areas
- Any basement/sub-grade areas
- Nature of the construction
- Contamination
- Nature of the access to the site and number of vehicle movements needed
- Size and nature of the surrounding roads
    - Are road closures required?
- Issues which might necessitate restricted working hours or practices due to noise, traffic movements, pollution, etc.
- Location in relation to railways or rivers.
- Location in relation to residential properties, etc.
- Historical importance or heritage listing of the building

Note: It is relatively rare for a property, particularly a historically important or listed property, to be completely lost in a fire or other major incident. Therefore, rather than pure site clearance, the first priority will be to engage with the appropriate bodies, shore up and retain as much of the damaged building as possible.

Planning Permission and Viability of the Location

Following the incident, the planning process can take considerable time. Firstly, the design of the building must be agreed and drawn-up and the rebuild submitted for approval.

While council officers can decide smaller planning applications quickly, larger applications are decided by the full planning committee which may not meet as frequently and can slow down the process.

Even modern properties may see additional planning requirements to include:

- Environmental or carbon neutral features
- Flood alleviation or fire water run-off measures, such as attenuation, to prevent immediate run-off of surface water to drains

Areas that can impact the planning process include:

- What will the new design of the building/site look like compared to the old building/site?
  - Are there architectural challenges?
  - Is there any historical architectural importance to the area or building?
  - If only partial rebuilding is required, is the age of the remaining building a limiting factor?
  - How will modern building and/or fire regulations impact the design?
- What enhancements or betterments will be included in the design?
  - The new building will probably not look like the old building
  - Will fire compartmentation and automatic fire protection systems be required?
  - Will the company use this as an opportunity to optimise their building and operations/processes? The existing configuration may not be ideal for any remodelled business
- How does the area of the site look today versus when the original building was built? Other occupancies such as schools, housing, commercial properties, etc. could all be situated nearby that may not have been present when the original site was constructed
- Will there be local challenges to the rebuild?
  - After all there has been a significant event and depending on local pressure the council may not want the new property built where the old property was
  - Local residents may object to the planning for the return of certain trades, which involve such things as traffic management, noise, or pollution issues
- Are there any historical or building listing issues that mean additional planning consent is required? If so, the appropriate historical authorities will probably be involved to agree how the damaged property is to be rebuilt

Rebuilding the Premises

Having investigated the loss, cleared the site, and obtained the required planning approval, the rebuilding work can begin.

However, there are still many factors that need to be considered.

Location and Access

The same access issues that impacted site clearance will also impact on rebuilding the property.

In addition, access to the site and storage issues can also impact deliveries to the site. This in turn could result in the possibility of more frequent ‘just-in-time’ deliveries using smaller vehicles. Controlling building materials and large structural elements can be limited by the site itself and the surrounding topography.

Age, Size and Construction Materials of the Building

The age of a property is important, even if it is not a listed structure.

- Older properties are unlikely to have original plans available and are likely to have been altered and/or extended over the years
- Current building and fire regulations are likely to require changes to the rebuild
- The existing configuration may not be ideal for the current business activities and this opportunity will be taken to optimise it

The size, number of storeys and number of basements will have an impact on the rebuild. The larger the building, generally the longer it will take to rebuild.

The nature of the materials of construction will impact the rebuild period. Can the property be rebuilt in modern materials, i.e. steel frame with cladding panels, which are much quicker to erect than traditional materials? Traditional building methods generally require more skilled labour and take longer to erect.

- Similarly, is the interior finish of the building modern or again is it traditional? Is skilled artisan labour required?

Availability of Building Contractors and Materials

In recent years major projects across the UK and Europe have resulted in specialist contractors and trades, trained labour and materials of constructions either being in short supply or only available at inflated costs. Either of these reasons can have a direct impact on the actual cost of the rebuilding project versus the estimated cost and/or impact the length of time the site remains unbuilt.

- Examples include the London Olympics, UK Crossrail, and the Hinckley Point C nuclear power station.

In addition, consider the availability of artisan or bespoke building materials or appropriate skilled technicians or contractors if the building is of historical importance or listed. These materials or individuals may not be readily available, but as a requirement of the planning permissions they may have to be employed.

Also, political changes, such as Brexit, may have a direct impact on the availability and costs as above.

Additional Features and Protections

Following any major incident, as part of the rebuilding process, additional safety features, improved fire compartmentation, provision of automatic fire detection and fire suppression systems, their design, installation, and acceptance may also have an impact on when certain aspects of the project can proceed. As an example, the introduction of equipment or combustible occupancy may not be permitted until the fire protection strategy is installed and operational. Understanding the stages of a project and what can be completed and when can impact the time and the costs of the rebuild.

Fit Out, Commissioning and Approvals

Once the main structure/shell of the building is rebuilt, it can still take a considerable time to fit out the building for its intended use. Ensuring any equipment, but especially bespoke or long lead time equipment, is ordered, delivered, and installed, and that following this the proposed process is appropriately commissioned and accepted can take a considerable time. Add to that, certain industries such as pharmaceutical, food manufacturing, etc. will also require approval by regulatory or trade bodies before any meaningful production and sales can recommence. This can all add time and costs to the rebuild process.

Listed, Heritage, Historic Buildings

As indicated, all the above can be impacted if the damaged property is listed for historical, heritage and/or architectural purposes by a national listing body.

In addition to the challenges of site clearance and feature retention, planning, the use of specific and bespoke materials and contractors, these bodies may also want to incorporate into the rebuild as much of the salvaged material/original construction as possible.

In exceptional cases, it may even be necessary to re-open a quarry to replace a specific material that matches exactly the original, i.e. the stone or granite comes from a specific quarry in a certain country.

All these factors mean that it could take many years to repair a partially damaged historically important building, e.g. the major fire associated with Windsor Castle and some of those suffered by the National Trust, have taken up to 6 years to rebuild, with further time then required to recover the business activities.

Note: Historically important and listed buildings require specialist advice as to the rebuilding period as well as rebuilding costs.

Professional Building/Rebuilding Valuations

As part of a joined-up approach to risk management, understanding the properties an organisation uses, owns, and insures; their value; the infrastructure and equipment utilised within, etc.; how much they actually cost and how long they could take to replace, is imperative.

Ensuring values and rebuilding periods are accurate and that up to date valuations are completed underpins the basis of risk assessment and any risk transfer mechanisms, such as insurance. It helps with evaluating and setting *Indemnity* and *Maximum Indemnity Periods*. It also helps address the exposures created to an organisation of *Under-Insurance* and *Over-Insurance,* when declared values are incorrect.

If incorrect values are declared and there is a loss event, this can result in delays to settling a claim, the claim amount being different to expectations, rebuilding activities being challenged, etc., all of which can directly impact the nature and time to rebuild a property.

As a result, Aviva recommends formal rebuilding and building valuations are regularly undertaken:

- Professional rebuilding cost surveys should be carried out by a member of the Royal Institution of Chartered Surveyors (RICS), or other qualified professional
    - These should always be directed to provide commentary on the likely rebuilding period for the property being reviewed
- Ideally a full valuation should be completed at least every 3 years
- Building insurance valuations should be based on *rebuilding costs* and not the *market value*

This then ensures that the risk is fully understood, its value is appropriately quantified and the length of time any catastrophic event could impact it, is fully considered. Additionally, it assures all parties that the values and indemnity periods proposed as part of any insurance programme are accurate and up to date.

Specialist Partner Solutions

Aviva Risk Management Solutions can offer access to a wide range of risk management products and services at preferential rates via our network of Specialist Partners. These include:

Barrett Corp & Harrington (BCH)

Benchmark Building Validation Service: Tackling the problem of underinsurance head on. 80% of the commercial properties surveyed in 2019 were underinsured.

Reinstatement Cost Assessment: This is always the most accurate way to achieve the correct buildings sum insured and for some properties, it is the only recommended option. Is a property insured for the correct value? Underinsurance remains a significant issue within both the commercial and residential markets. Being underinsured can have a significant impact on claims settlement and subsequent impact on any building.

Contact details:

info@bch.uk.com

01455 293510

Cardinus

Reinstatement Costs: A reinstatement cost assessment is a professional valuation which provides a complete assessment of the property rebuild costs. It takes into account the cost of labour and materials, access to site, removal of debris and a variety of other factors.

Contact details:

property@cardinus.com

0207 469 0262

Charterfields

Plant, Machinery and Contents Valuation: Accurate valuation assessments for plant, equipment and contents risks are a vital element for the protection of any business. With under insurance potentially leading to shortfalls in claim settlements and over insurance resulting in excess premiums for no benefit, independent advice is important.

Contact details:

0330 202 0116

www.charterfields.com

Sedgwick

Reinstatement Cost Assessments: Underinsurance remains a significant issue within both the commercial and residential markets. Being underinsured can have a significant impact on claims settlement and subsequent impact on a building's reinstatement.

Contact details:

01489 567 855

valuationservices@uk.sedgwick.com

For more information please visit:

Aviva Risk Management Solutions – Specialist Partners

Additional Information

Relevant Aviva Loss Prevention Standards include:

- Brexit - Be Prepared
- Business Continuity
- Business Continuity - Testing and Maintenance
- Business Impact Analysis
- Business Interruption - Indemnity Period and Maximum Indemnity Period
- Office Fit Outs
- Contamination Following a Fire

To find out more, please visit Aviva Risk Management Solutions or speak to one of our advisors.

Email us at riskadvice@aviva.com or call 0345 366 6666.*

*Calls may be recorded and/or monitored for our joint protection.

Please Note

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