



Farm Buildings Insurance - Setting Your Sum Insured

Version: 2020-01-20

Contents

Title Page, Notes & Contents	Page 1
What Should & Shouldn't Be Included as Agricultural Buildings/Farm Buildings?	Page 2
Basis of Cover – Modern Materials Vs. Reinstatement	Page 3
Setting Your Sum Insured	Page 4
What Happens If You Get Your Sum Insured Wrong – Application of Average	Page 5
Where Can You Get More Help	Page 6

Notes

This document has been produced to assist RTIS customers in setting the right sums insured for agricultural buildings under your farm or smallholding insurance policy.

Please be aware that this is a generic document applicable to the majority of farm insurance policies provided by insurers that are used by RTIS. Each insurance contract can vary and the guidance given here may not necessarily be appropriate for your policy. If you are unsure as to whether the information below is relevant to your policy or if you have any queries please contact our office and we will be happy to provide relevant advice specific to you. Please bear in mind that whilst we will give advice on insurance contracts, we are neither building surveyors nor property valuers and therefore cannot calculate sums insured for you or provide figures specific to your property.

Please note that this document has been produced to provide generic guidance and as detailed in our Terms of Business (www.tidballinsurance/documents) RTIS do not accept any responsibility for ensuring that any sum insured selected by you or any limit applicable under your insurance policy is adequate, sufficient or suitable for your needs.

What Should Be Included As Agricultural Buildings?

When setting your sum insured, you will need to know what to consider as 'Farm Buildings'/'Agricultural Buildings'.

Each insurer's policy wording will be slightly different and therefore it is important to check your policy to understand what your insurers expect you to include when calculating the sum insured required for your 'farm buildings'. Generally, this will need to include:

- The structure of farm building (walls, floor and roof)
- Interior decorations and the landlords' fixtures and fittings in or on the buildings
- Walls, gates, fences around and pertaining to the buildings*
- Small ancillary buildings and structures including concrete, paved or asphalt forecourts, yards, terraces, drives or footpaths;
- External trunks, conveyors, shafting, belting, cables, ropes, service pipes and similar equipment all **Your** property or for which **You** are responsible
- External fire escapes, hoists, gangways, external clocks, staircases, water tanks over or forming roofs of Buildings, solar panels on roofs (some insurers will want these noted separately),
- Internal and external fixed glass sanitary ware and signs

*Many insurers will allow you to insure walls, gates, fences and hedges separately on a 'first loss' basis under the farm contents section. If you have chosen to do this, you may not need to include these under your Farm Buildings sum insured.

If you are unsure as to whether an item should be included under your farm buildings sum insured please ask a member of our team and we will be happy to advise or clarify the position with your insurers on your behalf.

What Doesn't Need to Be Included as Agricultural Buildings?

- Domestic Outbuildings. If you have buildings which are situated near to your house which are used for domestic purposes (e.g. garages, utility rooms, outside toilets, etc.) these should be included under your home buildings sum insured and therefore don't need to be included under your farm buildings sum insured.
- Fertiliser/fuel tanks, grain silos or similar – these should all be specified separately from the buildings as many insurers cover these under different sections of cover.
- Moveable property should be specified separately as this will usually be insured under farm contents. If you have moveable buildings (e.g. moveable poultry buildings, field shelters and similar) please contact us to discuss these as insurers may cover these under farm buildings but will often automatically exclude storm cover for any moveable property.
- Items you have insured under other sections. As noted above insurers may allow for 'walls, gates and fences' to be insured separately on a 'first loss' basis. In addition certain fixed items such as poultry heating equipment may be able to be covered under the farm contents or under the farm buildings section. If you have fixed equipment we would recommend contacting us to discuss the options available for covering this with your insurer.

Basis of Cover – Modern Materials Vs. Reinstatement

When insuring agricultural buildings, you generally have a choice as to what basis of cover is most suitable for you, between modern materials (MM) and reinstatement (R).

Under either Modern Materials or Reinstatement cover, following damage caused by an insured peril, your insurers will pay:

- a) Where repair is possible – Insurers will pay the costs of repairs to your property
- b) Where repair isn't possible (or if repairs would cost more than clearing the site and rebuilding) – Insurers will pay the costs to completely rebuild your agricultural building from the ground up

However, the materials used when carrying out repairs/replacement will differ depending on whether you have chosen Modern Materials or Reinstatement cover.

1. Modern Materials Cover (MM)

Your insurer will pay for the repair or rebuild of the buildings to provide comparable facilities to existing structures using the appropriate modern materials (e.g. steel-frame, metal, timber, concrete block etc.)

2. Reinstatement Cover (R)

Your insurers will pay for the repair or rebuild of the buildings using the same materials that the buildings are currently constructed of. I.e. if you have stone and cob barns with a slate roof, the insurers will pay for repairs/replacement with stone, cob and slate. If your agricultural buildings are steel frame and metal clad, your insurers will pay for repairs/replacement using steel-frame and metal.

As your farm buildings are generally considered to be a business asset for farm use, most insurers will automatically assume that rebuilding/repairing the buildings using appropriate modern materials to provide comparable facilities would be the preferred option for policyholders. Therefore they will automatically provide cover on a Modern Materials basis.

However, there are various times where policyholders may prefer Reinstatement Cover, for example:

- Where buildings are listed or are within the curtilage of a listed building you would likely be required to repair/rebuild the properties out of the same type of materials as they are currently built from. Similar requirements may be in place if the property is within a conservation area.
- Where you have traditional stone and slate farm buildings which you may wish to develop into housing or similar in the future
- Where you have buildings with particular character which are in keeping with the surrounding buildings. Such as traditional stone and slate barns adjacent to your stone and slate farmhouse.

In any of the above scenarios, the standard cover provided on a Modern Materials basis would not be suitable for you and you should request cover on a Reinstatement basis and set your sum insured accordingly.

Setting Your Sum Insured

Once you have chosen your preferred basis of cover, the next step is to set your sum insured. Your sum insured needs to be sufficient to cover the full 'value at risk' to your insurers. The 'value at risk' is the cost that would be involved in fully rebuilding/repairing all of your farm buildings if they were all severely damaged/destroyed. This should include an allowance for:

- Clearing the site of damaged materials*
- Any relevant professional fees (architects, structural engineers etc.)
- The full rebuilding contract of the buildings to be carried out by professional contractors (materials and labour) in either 'modern materials' or reinstatement in the same materials as previously in place, depending on the basis of cover you have chosen.
- Any additional costs due to the specific use of your property. For example, if an agricultural building is now used for non-agricultural purposes (e.g. let as a wood-working workshop) it is likely that you would be required to meet more stringent building regulations when reinstating the property which would add to the cost in repairing/reinstating.
- Any other relevant costs specific to your property (e.g. additional access costs for sites in difficult to reach locations, additional costs to comply with listed building requirements etc.)

*Some materials may be more costly to clear from a site due to their hazardous nature and specialist contractors required (e.g. fire damaged asbestos, poultry waste from poultry buildings etc.). The costs involved in clearing these materials should be included in your assessment of the 'value at risk'. Due to the prevalence of asbestos in agricultural buildings and the high costs involved in its' removal, many farm insurers automatically include an allowance 'on-top' of your sum insured for the removal of asbestos. If this is the case the additional costs involved for asbestos removal may not need to be included in your sum insured; however please ensure you check your policy documents or contact us to check this before excluding this from your sum insured.

It is important that you select your sum insured to include the above costs for all of your buildings as this is your disclosure to the insurers of the amount of risk that they are accepting. Failure to do so, would affect the settlement of any claim as detailed below.

If You Have Buildings You Do Not Wish to Insure

Most farm insurers are comfortable in accepting that you may only wish to insure certain buildings which are more critical to your business or larger buildings which could not easily be repaired by you.

However, it is essential that they are made aware of this at the outset of a policy so that all parties are fully aware of the buildings which are insured and the buildings which are not insured. Insurers will not usually accept policyholders advising that certain buildings were not intended to be insured after a claim has occurred.

If you have not specified which buildings are to be insured and which are not to be insured with the insurer, then the insurer will include all of your buildings in their assessment of the 'value at risk'. If there are buildings which you have not included when setting your sum insured this will likely mean that your sum insured is too low to represent the 'value at risk' and average will be applied as detailed below.

What Happens If You Get Your Sum Insured Wrong?

Many people wrongly assume that if they have insured their property for £200,000, they will be covered for any insurance claim up to £200,000 and therefore any claim up to £200,000 will be met in full. **However, this is not the case.** In order to understand their exposures and set premiums which accurately reflect the risk, insurers insist that the sum insured disclosed to them must represent the full 'value at risk'.

In the event of a claim, your insurers will assess the 'value at risk' against the sum insured you have requested.

If your sum insured is too low – application of 'Average'

If your sum insured is lower than the insurers calculation of the 'value at risk', your insurers will consider that you have not given them the correct information for them to charge you the correct premium. To protect insurers from this under-disclosure of the risk, virtually all policies contain an 'average' clause. This means that the insurers will reduce the settlement of any claim to represent the proportion of the 'value of risk' that your sum insured represents. This is best explained with examples:

Example 1 – Farm Buildings (Modern Materials)

- Mr A's farm buildings are insured on a modern materials basis for £100,000.
- Mr A suffers a storm damage claim which causes damage to one of his farm buildings.
- The repairs to the building will cost £20,000.
- A loss adjustor attends the site and calculates that the total cost to reinstate all of the farm buildings using modern materials would be £200,000.
- The loss adjustor sees that Mr A had only insured half of the risk for his farm buildings and therefore the insurers only pay half of the claim less the excess
- Claim of £20,000 – insurers only covering half, therefore will pay £10,000 less the excess
- The policy has a £500 excess for storm damage.
- **Total settlement from insurers = £9,500.**
- **Total left for Mr A to pay = £10,500**

If Mr A had insured his farm buildings for £200,000 on a modern materials basis, the insurers would have paid the full loss of £20,000, less the £500 excess = £19,500.

Example 2 – Farm Buildings (Reinstatement)

- Mr A's has 8 traditional stone farm buildings with a slate roof insured on a reinstatement basis with a total sum insured of £300,000.
- Mr A suffers a severe fire which destroys one barn.
- The rebuild of the barn including all relevant costs will cost £120,000
- A loss adjustor attends the site and calculates that the total cost to reinstate all of the farm buildings using the same materials as existing (stone and slate) would be £900,000
- Therefore, the loss adjustor sees that Mr A had only insured one third (33.3%) of the risk for his farm buildings.
- The insurers will pay one third (33.3%) of the claim less the excess.
- Claim of £120,000 – insurers only covering one third (33.3%) = £40,000.
- The policy has a £350 excess for fire damage.
- **Total settlement from insurers = £39,650.**
- **Total left for Mr A to pay = £80,350**

If Mr A had insured his farm buildings for £900,000 on a reinstatement basis, the insurers would have paid the full loss of £120,000, less the £350 excess = £119,650.

If your sum insured is too high

If your sum insured is set too high, your insurers will pay the full cost of any claim. However, it is not standard practice for insurers to refund premiums where they discover the sum insured declared to them was too high. Therefore, you will find that you have paid more premium than was necessary for the cover required.

Where Can You Get Help?

If you are unsure on any of the above, please do not hesitate to contact us and we will be happy to offer advice specific to your policy.

Our advice in the vast majority of cases would be to appoint a qualified surveyor to carry out an assessment of the full value at risk for your buildings. Whilst appointing a surveyor carries a cost, this is the best way of ensuring that your policy will provide suitable protection and will avoid over-paying your insurance premium due to over-estimating your required sums insured.

Policyholders with modern-built agricultural buildings where recent build-costs are known may be able to appropriately estimate the other costs involved in assessing their 'value at risk' and set their sums insured accordingly. Policyholders with buildings constructed with more specialist materials (e.g. traditional stone, cob, thatch etc.) will likely find estimating the appropriate 'value at risk' to set your sum insured with any accuracy to be exceptionally difficult without professional help.

You may be able to get more informal advice from a local contractor, however please make sure you/they consider all of the relevant costs as detailed under 'Setting Your Sum Insured'

Please note that we are not qualified buildings surveyors and therefore are not qualified to calculate sums insured for you. In some circumstances we may be able to provide cost per square metre/cost per square foot figures used by loss adjustors in previous claims or in training material provided to us. However, this is not our area of expertise and therefore there is no guarantee that this would be up-to-date or appropriate for the costs required for your property. Please contact us if you would like to discuss this.