

# *Insurance for Historic Buildings: A Risky Business*

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The nation's stock of historic buildings is finite. Whether a stately home or a more commonplace town house, each individual building contains an inherent and often unique series of values which deserves a higher degree of care and consideration than their more modern counterparts. This philosophy needs to be applied when assessing requirements for property insurance to ensure that the appropriate levels of cover and protection are provided. In addition, the design and construction of historic buildings invariably makes them more vulnerable to damage, especially by fire, and more expensive to repair after damage has occurred.

In recent years, major losses have occurred to our heritage, including fires at Hampton Court and Windsor Castle, and bomb damage to the Baltic Exchange and St Ethelburga in the City of London. These losses have led to extensive reviews of the nature and spread of damage, as well as recommendations to reduce the risk of similar events occurring in future. Prevention is obviously better than the cure, as no matter how well reinstatement works are carried out, the loss of historic fabric is irreversible. Insurance cover is a fallback position only, which provides recompense to owners in the event of loss or damage in order that repair or reinstatement may be financed in whole or in part.

There is an extensive range of insurances which could be considered appropriate. It is necessary to take a holistic view and to take advice from professionals and insurers with specialist knowledge of historic buildings in order to ensure that adequate cover is provided in relation to the perceived risks. In addition, owners must recognise that The Duty of Utmost Faith implies an obligation of full disclosure of all material facts to the insurer; any breach may result in a contract for insurance being void.

This article concentrates on the subject of property insurance, which provides cover to the effects of physical damage upon the structure, fabric, fixtures and external features of a building or structure. However, other forms of insurance may also be needed to ensure that all the various interests and liabilities are protected including:

**Contents insurance** usually applies to items not permanently fixed to the building including furnishings, works of art, collections and personal possessions. Specialist knowledge may be required to value certain items and a full inventory with record photographs kept in a fire-proof repository.

**Engineering insurance** provides cover for damage or loss of mechanical plant such as lifts, boilers, ventilation systems and lifting equipment. Insurance of this type requires regular inspections and testing of equipment under cover.

**Public or third party insurance** provides cover for claims for damage to persons or property, made by employees, visitors and neighbours.

**Consequential loss insurance:** 'Business interruption' or 'loss of profit' insurance provides cover for loss of revenue from visitors or rent for example, and other consequential financial loss such as temporary relocation, removal and storage costs.

**Gardens and ornaments insurance:** Property insurance does not provide adequate cover where there is significant value in garden ornaments such as statuary. Some insurers offer

policies to cover soft landscape, although an understanding of the level of reinstatement possible needs to be defined.

**Insurance against terrorism:** Since 1993, damage and reinstatement cover to commercial buildings and certain types of residential property caused by terrorist action have been excluded or limited from standard property insurance policies, and additional cover needs to be considered.

**Building works:** The introduction of building works into historic buildings significantly increases the risk of damage or destruction as illustrated by the fire at Uppark in Sussex. Not only should additional precautionary measures be instituted (see Risks and Risk Management below), but insurers should also be notified and additional temporary cover put in place. The insurance clauses included in any building contract need to be closely studied and appropriate cover obtained by the owner or contractor as required.

### PROPERTY INSURANCE - FACTORS TO BE CONSIDERED

Before deciding on the type and level of property insurance required, it is necessary to return to first principles and assess the following:

- Does the building or structure have a historic value which would be destroyed or seriously compromised by rebuilding in part or whole? In such a case, full reinstatement insurance may not be considered necessary.
- Is the building part of a group of historic buildings, say in a conservation area, which would be greatly devalued if a single element was not rebuilt? In this case, the justification for full reinstatement insurance is greater.
- Does the building have a commercial value or interest which needs to be protected, for example as an obligation under a lease or mortgage; or alternatively where it forms part of an investment portfolio? Here full reinstatement may be a contractual requirement or prudent in order to protect commercial interests.
- Would the premium based on a total reinstatement insurance policy outweigh both its historic or commercial value? In which case a lesser form of insurance may be acceptable.

It should be borne in mind that total loss is very rare and therefore claims against building insurance policies are usually on a partial loss basis. The point at which a building becomes so damaged that full reinstatement is not justified is a difficult one to identify, however, figures of 50 per cent to 60 per cent loss have been suggested as the break point.

### LEVELS OF PROPERTY INSURANCE AVAILABLE

**Total reinstatement** provides a level of cover which in the case of total destruction should enable the owner to completely rebuild to the same design quality and style but in accordance with current legislation. Similarly, in the case of partial loss, it enables the repair and rebuilding of the damaged and destroyed parts.

In relation to modern equivalents, historic buildings are inherently expensive to repair and rebuild. Therefore premiums are comparatively high, particularly where full reinstatement insurance applies. Owners may select lesser and cheaper forms of cover in agreement with insurers. However, very careful consideration must be given to assess their shortcomings balanced against the risks.

**Modern materials clauses** enable reconstruction to the same design but using modern and more readily available equivalent materials. Therefore cover will not be sufficient for the full cost of repairs to scheduled monuments and listed buildings, and may also be insufficient for buildings in conservation areas, where all repair and replacement work would usually be required to match the existing in material and detail.

**First loss and agreed value insurance** provides cover to the largest single risk which may be represented by the largest building within a group or the most vulnerable part of a single

building based on a single event. If the value of the reinstatement or rebuilding exceeds the value of cover, recompense may be limited to value of the lesser. A similar principle may be applied to irreplaceable works of craftsmanship or artistry which are deemed to be part of the building fabric. In such cases, an agreed value may be covered which might reasonably reflect the cost of a contemporary replica.

**Indemnity cover** provides enough money to build a modern replacement building in the event of total or near total loss. Once again, complications will occur in the case of partial loss whereby statutory requirements may impose the need to reinstate on a 'like for like' basis, in which case the full cost is very unlikely to be covered under such a policy.

**Average cover** limits final payment to an agreed proportion of the actual total value of cover compared to the full reinstatement value. In effect, this would leave the building knowingly under insured, and there must be a clear understanding between both parties of the limitations and their implications.

**No rebuilding insurance:** With certain monuments, reinstatement would detract from the historic value and if commercial value is not significantly affected, there may be little point in reconstruction. However, some cover should be obtained, if only to make the structure safe and, if appropriate, to record and remove debris. Large estate owners may also select to carry the full risk for loss or damage to individual buildings and structures, or indeed to the entire estate and not insure at all.

With historic buildings there is always a possibility of an element of disrepair. Unless it was contributory to the loss or damage, a small amount of disrepair may be tolerated in the event of a claim, however insurers are unlikely to contribute to improvements or betterment without making some adjustment to payments against a claim.

## **RISKS AND RISK MANAGEMENT**

The nature and control of risks can have a significant effect upon insurers' willingness to accept risks and can also control the level of premiums. The type of risks have changed over the years with some increases which have in part been countered by the introduction of preventative systems including methods of detection of fire or intruders in particular. Control of risks or Risk Management is becoming increasingly important, particularly to historic buildings where organisations such as the National Trust and the Historic Royal Palaces Agency have introduced strict controls to reduce the danger of fire, theft and damage including detailed salvage plans. Such plans indicate to insurers that positive steps are being introduced to reduce and control extent of risks. These manifest themselves in a series of building and site standing orders, as well as physical improvements which generally fall into three categories:

**By design:** With the help of a specialist, consider the introduction of barriers to the spread of fire and smoke together with fire detection and fire fighting systems above any statutory requirements; review the combustibility of components and finishes and consider methods of reducing risk of fire in these areas; and review heat sources in a building and seek methods to reduce the risk of them becoming sources of fire.

**During construction work:** Historic buildings often face their greatest period of risk during construction work. It is essential to apply strict controls on access and maintenance of escape routes and fire detection and fire fighting systems. Ban the use of appliances which produce naked flames or sparks; impose the use of hot work permits; avoid the use of compounds containing flammable solvents; clear rubbish regularly and nominate persons to inspect all work areas at the end of the day.

**By management:** Standing orders should be issued regarding regular testing of heat producing equipment, fire detection and fire fighting systems. Control smoking and regularly inspect all areas of buildings for hazards with increased frequency in high risk areas. Develop and practice fire evacuation and salvage drills.

Risk Management is a complex subject in its own right and requires considerable thought and planning beyond the suggestions outlined above.

## **VALUATIONS**

The value needs to include not only the cost of reconstruction but also allowances to build to current legislation, inclusion for demolition, temporary site works and clearance, professional fees, VAT, plus any other directly related expense. The value must be calculated to cover a loss on the last day of the insurance cover, plus any inflation which may occur in the time taken to establish and complete a contract for reinstatement.

The most accurate method of estimating for reinstatement is likely to be obtained on a detailed elemental cost basis analysis similar to an approximate Bill of Quantities. Reasonably accurate figures may be produced by calculations based on costs per metre cube and cost modelling; prices per metre square should only be used in simple cases. In any event, experienced professional advice should be sought to obtain an accurate cost, and valuations should be updated annually or, if an inflation provision is in-built, every five years.

## **THE IMPORTANCE OF RECORDS**

It is of utmost importance to have permanent records of the building to aid reinstatement, of which at least one copy should be held off the premises. The record must include a set of record photographs, cross-referenced to scaled plans. Ideally drawn cross-sections and elevations should be included and with particularly fine buildings, justification should be found to commission a rectified photographic survey or better still a photogrammetric survey if not already available.

Owners should take all reasonable measures to prevent and limit loss or damage to their buildings. They should ensure that adequate insurance cover is provided and that valuations and building records are updated as necessary. In the event of a claim, it is imperative that specialist professional advice is sought. It is essential that the correct measures are taken to preserve and conserve the historic, architectural and archaeological interest of the building.

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