



WHITEHALL

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Commercial Property Insurance Minimum Cover Requirements



Introduction

It is extremely important to ensure that properties owned by the pension schemes we provide are adequately insured. Should any insurance fail in the event of a claim, the uninsured losses could have a significant impact on the value of your pension. The overriding priority is the protection of your property and ultimately the pension fund against the unknown financial consequences of an unexpected occurrence.

You can arrange your property insurance yourself or utilise our bespoke Master Block Policy property insurance facility which we have arranged with Berkeley Insurance Group (part of the Brown & Brown team).

Whichever you choose, we ask that these minimum cover requirements are included in your policy. Our Master Block policy automatically exceeds our minimum acceptable cover criteria.

1. Summary of Minimum Cover Requirements



Separate policy for the pension scheme	
Policy in all trustees' names	
Full Material Damage All Risks	
Loss of Rent for three years	
Terrorism Cover	
Property Owner's Liability – minimum £10m	
Day One Reinstatement basis with a minimum uplift of 25%	
No Condition of Average clause	
No Proportionate Remedies Reduction in Claim Approach	

2. A Separate Policy for the Pension Scheme

Property must be insured under a property owner's policy separately to any other business insurance.

Cover must not include business contents such as stock, machinery and plant etc. Equally, the legal liability cover is to be for "Property Owners Liability" only. There must not be any Employers Liability or Public/Products Liability included within the buildings insurance policy.

Insuring the property separately to any other business insurance reduces the risk of a repudiated claim should there be a breach of a policy condition under a business insurance. This arrangement also avoids the claims experience for any losses not involving buildings increasing the premium rating.

3. Policyholder

The policy must be in the names of all trustees including the corporate trustee to match the pension scheme's property title.

To equally protect all trustees, the policy must also be on a "composite insured" basis; it is not sufficient just to note the interest of the trustees or arrange the policy on a joint policyholder basis.

Without a composite insured format of cover, one trustee could penalise all other trustees by rendering the policy void should a policy condition be breached. This may result in a repudiated claim. A composite insured format will provide better protection for all trustees should the unknown actions of one party void the policy.

4. Insured Perils

Cover must be on a full "Material Damage All Risks" basis, including subsidence, glass breakage, theft. Terrorism cover must also be included. Cover levels for vacant property will be reviewed should the property become unoccupied.

A Material Damage All Risks policy wording provides wider protection than a standard specified perils policy, even with accidental damage cover. Wider cover reduces the risk of an uninsured loss that can make a big difference in the event of a claim.

5. Loss of Rent

To protect income should a loss arise, rent including service charges where applicable must be insured for a minimum of 3 years. This is known as the indemnity period.

Should the indemnity period not be of sufficient length to ensure the property has been rebuilt and allow time for a new tenant (or the previous tenant) to be in occupation and paying the full rent, any shortfall will have an impact on your pension pot. Longer indemnity periods can be arranged if required.

6. Terrorism Cover

Your policy must include an indemnity for Nuclear, Chemical, Biological and Radioactive attacks. Not all terrorism insurance covers these risks, so the policy wording for terrorism coverage must be checked carefully.

The nature of terrorist activity and attacks targeting property is constantly changing. Failure to recognise the evolving threats presented by terrorism can impact on the pension fund if such risks are not insured.

7. Property Owner's Liability

A minimum level of indemnity is required of £10m for any one incident.

A higher limit may be needed for certain types of properties to ensure adequate protection is in place.

Our Master Block policy automatically provides a limit of indemnity of £20m.

Compensation levels awarded to injured parties continue to rise. The Ogden Table (an actuarial compensation mechanism) has a significant impact on how awards paid to injured parties is calculated. It is vital the limit of indemnity is sufficient. A shortfall in cover against the level of compensation awarded to a claimant can have a sizeable impact on your pension fund.

8. Buildings Day One Reinstatement

All buildings must be insured on a "Day One Reinstatement" basis with a minimum uplift of 25% applying to the buildings declared value. All policies must additionally incorporate annual index linking at each renewal.

A shortage of building materials and labour along with increasing construction costs risk rendering many buildings' sums insured inadequate.

Suitable allowance for increased costs must be built into the policy coverage to reduce the risk of underinsurance resulting in less than a full indemnity in the event of a loss.

9. Condition of Average (Underinsurance) Waiver

The policy must not include the "Condition of Average" clause. Insurers will normally agree to waive this clause where a periodic programme of reinstatement cost assessments is in place.

Underinsurance can result in the failure to fully reinstate or repair your property if a claim arises. This can impact on the level of rental income and significantly harm your financial goals. Avoiding underinsurance reducing the value of a claim is vital to protect your pension fund.

10. Proportionate Remedies

The Insurer must NOT apply the “Proportionate Remedies Reduction in Claim Approach” under Schedule 1 of the Insurance Act 2015.

The alternative option of charging an additional premium as an alternative remedy to innocent non-disclosure is acceptable. Confirmation on this specific point must be provided. A dual approach is acceptable but only where you can choose the preferred option.

Proportionate Remedies was introduced by the Insurance Act 2015 to protect insurers against the consequences of non-disclosure of material facts. The proportionate “reduction in claim approach” can significantly reduce an insurance payment if there has been any non-disclosure of material facts, no matter how innocent. Any shortfall can impact on your pension fund. Some insurers offer an “additional premium” or “dual approach” option. In the vast majority of situations, these options offer a more favourable outcome than the proportionate reduction in claim approach.

If you have any queries regarding these guidelines, please get in touch.

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