

THISTLE LONDON MARKET RISKS

Unoccupied Property Roundtable
Summer 2014



Introduction

The recession devastated many UK businesses causing some to shut up shop for good, leaving a large number of commercial properties standing empty up and down the country. According to the Empty Homes Agency, there is enough unoccupied commercial property to create 420,000 new homes, demonstrating the scale of the problem.

These empty buildings have caused a huge issue for the insurance industry. Unoccupied buildings are more prone to theft, vandalism and arson and are therefore a riskier prospect to an underwriter. As consequence, many insurers reluctantly offer property owners limited insurance for unoccupied buildings. Problems can also arise when only part of a building is occupied, leading to a potentially difficult resolution should a claim arise. Brokers have started to strip out unoccupied cases from within a portfolio, but for some underwriters, insuring the more unusual risks allows them to stand out and deliver a policy which the larger composite insurers cannot, or choose not to.

Thistle London Market Risks wanted to understand the issues around providing insurance for these types of properties, and what advice or best practice brokers and underwriters can follow when dealing with these. A roundtable was held in late summer 2014 which saw

Thistle joined by leading underwriters Aspen, Catlin and Canopus to debate some of the key issues.

Information gathering

All roundtable participants agreed that when dealing with more complex risks such as unoccupied property, it is vital that the broker attempting to secure cover gathers as much information as possible from the client. These risks are not conventional and every case will have a unique set of circumstances which will determine the pricing. Typically, a lack of information at this stage results in unattractive premium prices and can generate unnecessary time and effort to retrospectively source this data.

As well as ensuring that a premium is as competitive and comprehensive as can be, providing as much information as possible has the additional benefit of ensuring, should a claim be made, any discussion around a potential loss can be held from an informed point of view.

Today, most unoccupied property risks are priced with some key elements of information missing. Therefore the onus is on both the broker and provider to demand as much details as possible at the outset, even though these conversations can typically be difficult from the group's experience.

Factors which attendees agreed should be noted as part of any initial survey prior to an insurance application

include: age of property, number of storeys, type of construction including floors, planning permission (whether it is granted/pending etc.), length of time unoccupied, previous occupation (school, pub), new/planned occupancy, renovations (timings – start, complete and costs), inspection schedule, waste clearance, confirmation of utilities being switched off, security systems in place and activated.

If any of the above elements are missing this risk would likely only receive cover for fire, lightning, explosion and aircraft (FLEA). Should all of the above be provided, wider perils can be added to the schedule, including riot, civil commotion, malicious damage, earthquake, storm, flood and impact.

Only an all risks policy can provide total peace of mind to all parties, and such a policy is only attainable if the underwriter is provided with a complete picture of the property.

Planning permission

The most common reason a building remains unoccupied is down to the status of planning permission. More often than not, a site will be purchased with the intention of redevelopment, yet securing the necessary approvals can take time and result in the building standing empty for some time.

However, property companies who do not receive the appropriate permission will likely move on, leaving a property



vacant for an extended period of time and thus increase the likelihood of the premises suffering from malicious damage, flooding or other perils

Application process

The growth of online has meant that many general insurance policies can be satisfactorily bought online, although for commercial cover, Thistle and the underwriters present agreed that human intervention was still critical to understand the particular nature of the insurance requirement.

The group did not rule out the possibility of innovation into online application processes for commercial, but an allowance for easy intervention by an underwriter was seen to be critical.

Innovation

To date, this part of the market is one that has not benefitted from a huge deal of innovation. One underwriter mentioned he had seen bar codes printed on properties which can be scanned and logged by hand held devices, with an automatic update sent to the property management company and insurer that the property has been checked and any issues identified.

However, there has been little evidence of any other developments in this space and all participants agreed that technology surely has a role to play in helping manage such properties. Although security systems are a vital

component, and have improved over time, the group felt more needed to be done in this area. Input from industry and professional bodies would also be welcomed in this area, as all participants agreed that to date it is a subject to which little attention had been paid.

When a loss occurs

Across any field of insurance, the intention is to pay out on a policy and all roundtable participants agreed that not to do so only furthers negative feeling towards the industry as a whole. However, with unoccupied property, the policy itself can have more exemptions and clauses, so the group would encourage brokers to ensure all terms and conditions are thoroughly read and digested and passed back to the client. This helps to avoid the difficult conversations which are often missed at the information gathering stage.

The group also discussed at what price point a policy would need to sit in order for it to pay out under any circumstance. There was no agreement on what price such a policy would need to charge but it was agreed that it would be a positive move for the industry.

Conclusion and next steps

There were two main outputs from the discussion:

- The industry needs a guide or set of principles to aid brokers and underwriters when dealing with unoccupied property
- Technology has an increased role to play, both in the application and once the risk was insured

Roundtable contributors



Add to the discussion

Thistle aims to work with brokers and underwriters to take these points forward and will report back as any progress is made.

For more information, please contact:



Bob Peterson

Executive Director
Thistle London Market Risks
Bob.peterson@thistleinsurance.co.uk
+44 (0)207 528 4053



Robert Beere

Regional Director
London Market Risks
Robert.Beere@thistleinsurance.co.uk
+44 (0)207 528 4591

