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ASSESSING THE DOMESTIC CONTENTS VALUE AT RISK

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Just as the BCIS tables are in universal use for assessing the buildings value at risk, it should be possible for domestic contents to be valued in a standardised manner.

One of the fundamental duties of a loss adjuster when visiting a property for the first time is to comment on the adequacy of the Value at Risk. The purpose of so doing is to enable the Insurers to judge whether or not the premium they are being paid is appropriate to the cover they are providing.

An established method exists for calculating the rebuilding cost, and thus the value at risk, of domestic buildings - namely the BCIS tables. These tables, issued annually by the RICS, bring together a number of variables (such as the geographical location, age, style and quality of the building), deriving from them the rebuilding cost per sq.m of gross external floor area. This is probably the best information available short of obtaining builders' estimates and actually having the job done. However, no-one pretends that the BCIS tables produce a completely accurate figure: there remains the limitation that one is only addressing the problem in theory when one is considering the adequacy of cover, and only in practice when a claim arises.

When I joined this profession 15 years ago, I quickly discovered that no such convenient method seemed to exist for the contents of a dwelling. Over a number of years, I began to feel that there was a need for a “BCIS Table” for Contents.

No one suggests that a Loss Adjuster should determine the value at risk of a building by calculating the cost of every element of the building, such as the quantities of brickwork, concrete, timber, tiles and plasterwork. One simply measures the gross external floor area, enters the BCIS table at the appropriate point and interpolates an overall rebuilding rate per sq m. So what parameters were needed on which to base a table which could be used to evaluate the contents?

It seemed to me that there were two basic parameters, namely the quality and the quantity of the contents. As regards the quality, I tried to think of the variety of homes I had visited during the course of my loss adjusting career. At the lower end of the spectrum, one came across homes furnished with chipboard furniture, cheap fabrics, foamback carpets and small contents of low value. Moving up the spectrum, one encountered pine and reproduction furniture, better quality carpets and upholstery, books and pictures. At the top end, there were expensive fabrics and antique furniture, whilst in rare cases, the generally large houses might have a variety of fine art and antique collections on display.

To evaluate the quantity, it seemed obvious that the primary consideration was the size of the house, which was well represented by the buildings value at risk (although a problem here is deciding upon the correct Building Quality: see the Appendix below). A secondary factor was the level of furnishing, and here one needed to decide whether the house was sparsely, comfortably or over furnished. In this way, I put together the elements of my “Contents Value at Risk Guide”, which is an attempt to evaluate the contents as a percentage of the buildings value at risk in terms of the quality and level of furnishing. The Guide appears below as Table 1.

The actual figures which appear in the body of the table are based on observations made in the office and on site. In the office, I noticed that many domestic policies issued in the early 1990s offered a standard contents sum insured of £30,000. This often appeared in the schedule with a buildings sum insured of £100,000 for a normal large semi or small detached house. So it seemed likely that the value in the middle cell of the table (quality category 3, comfortably furnished) would be 30%. I also noticed that policies hardly ever appeared with a contents sum insured of less than £10,000, and that buildings with a value at risk of less than £80,000 were becoming a rarity. This suggested that the lowest value cell in the table (quality category 1, sparsely furnished) would be 12.5%.

One claim in particular helped me to develop the higher end of the table. There had been a theft at a large house in a village on the west bank of the Severn in Gloucestershire. The house was occupied by a rather grand lady in her late eighties and full of antiques, many of which, sadly, had been stolen. The wonderful thing about it, from the loss adjusting point of view, was that in about 1963, a comprehensive inventory of the house contents had been drawn up. The inventory was bound in a loose leaf binder about four inches thick, and its author was no less than Arthur Negus, the original TV antiques expert of "Going for a Song", who was an employee of Bruton Knowles, the Gloucester auctioneers. All of the antiques which had been stolen appeared in the inventory, which contained one or two sheets, inserted at a later date, to update the overall value. It was thus a relatively simple matter to agree an inflation factor to bring the values up to date and accordingly to settle the claim. The overall valuation, brought up to date, amounted to about 70% of the buildings value at risk, which I calculated from the BCIS tables. This enabled me to enter 70% in the appropriate cell of the table (quality category 5, comfortably furnished) with some confidence.

Another incident provided confirmation of the over furnished column further down the quality spectrum. This was a fire at a modern end terraced house in Trowbridge. The occupant, a single girl of about 30, was out at an overnight party when the house was attacked by an ex-boyfriend, who threw a Molotov cocktail through the back window. The house went up like a torch, luckily with no one inside. Virtually the entire contents were destroyed, although the Fire Brigade attended quickly and much of the building was saved. Months of discussions with the poor girl followed, during which she produced long lists of her possessions. Almost without exception, these were of ordinary description and quality: high street clothing, books and videos, unremarkable furniture, TV and video equipment, inexpensive ornaments. The striking feature was the sheer quantity of stuff which the girl had amassed in the preceding few years. Clearly, the house was over furnished and the contents loss was almost total. In the end, the contents claim was settled for about 35% of the buildings value at risk. I put 35% against quality category 2, over furnished in my table. The other cells in the table have been pencilled-in by interpolation, extrapolation and ongoing observation. Naturally, I do not claim that the table is perfect, and it will be for others to determine its usefulness and whether any amendments to individual cell values are justified. Nevertheless, I offer it as the best information I know of, and (I trust) a more convenient guide to the contents value at risk than the arbitrary methods of evaluation which used to be suggested.

TABLE 1: DOMESTIC CONTENTS VALUE AT RISK GUIDE

	LEVEL OF FURNISHING		
QUALITY OF FURNISHING	SPARSE	COMFORTABLE	OVER
1. Chipboard veneer, cheap fabrics and carpets, low value small contents	**12.5%**	17.5%	25%
2. Pine & reproduction furniture, mid range carpets & upholstery, inexpensive ornaments, few books & pictures	17.55	25%	**35%**
3. Solid wood furniture, mid range carpets & upholstery, many books, pictures and higher quality ornaments	20%	**30%**	45%
4. High quality fabrics and upholstery, expensive carpets, antique furniture, many books & pictures	35%	50%	75%
5. As category 4 with fine art and antique collections on display	50%	**70%**	100%

VALUES IN **BOLD** DETERMINEED FROM PRACTICAL OBSERVATIONS

APPENDIX

On-site determination of Building Quality within the BCIS Tables.

The BCIS Tables suggest rebuilding rates determined by the Quality of the building,, defined as Basic, Good or Excellent. Supporting text in the tables gives detailed advice concerning what constitutes the features of the various grades of Quality, but this

information is difficult to apply in the context of a site visit. In an effort to bring greater accuracy to the determination of Building Quality as used within the BCIS Tables, I have attempted to distil the supporting text and produce a more useful, if less comprehensive reference which can be used by the adjuster on site when it is important to calculate the buildings value at risk with greater than normal accuracy. By far the largest determining factor is the quality of the kitchen fittings. These can range from the most basic, un-modernised house where a porcelain sink and wooden draining board are still in use, through the rudimentary plywood cupboards of the 1950s, MFI-style chipboard and individual (but still mass-market) kitchen suppliers, all the way to extremely expensive, solid hardwood, bespoke installations gleaming with stainless steel. The quality of kitchen fittings can contribute up to 27% to the overall building quality.

Next in line is the sanitary ware (14%), followed by double glazing (12%), floor and wall finishes (11%), central heating and wall insulation (10% each). The remaining factors are the roof insulation, built-in cupboards, internal joinery (such as doors, stairs and skirtings) and electrical system.

To determine the overall quality, I look at each factor and award it points according to the list above. For example, under kitchen fittings, a completely un-modernised kitchen fitted with only a sink and draining board would score 0 or 1, whereas the latest solid hardwood and stainless steel installation might score 27. Similarly under double glazing, no such glazing would score 0, partial replacement or secondary glazing would merit 4 to 8 points, whilst replacement of all windows with modern UPVC units would score 12. In this way, a quick run through the ten categories would produce a score out of 100, from which the overall quality could be determined: basic 0, good 50, excellent 100. Table 2 below gives the maximum percentage contribution of each factor to the overall quality.

		%
1	KITCHEN FITTINGS	27
2	SANITARY WARE	14
3	DOUBLE GLAZING	12
4	FLOOR & WALL FINISHES	11
5	CENTRAL HEATING	10
6	WALL INSULATION	7
7	ROOF INSULATION	4
8	BUILT-IN CUPBOARDS	3

9	**INTERNAL JOINERY**	3
10	**ELECTRICAL SYSTEM**	2
		100

In the modern day and age, a building scoring 0 in every category will be extremely rare, but near basic quality is still encountered not infrequently. For example, a house with an un-modernised kitchen, basic sanitary ware, no double glazing, no special floor finishes and basic decorations, no central heating or insulation and no built-in cupboards would score less than 10 overall. This would add to the confidence of the adjuster in using little more than the basic rebuilding rate in calculating the value at risk.

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