
A Guide to Insurance Arrangements for the London Estate

INTRODUCTION

The insurance arrangements for properties which form part of the Grosvenor London estate are dictated by the terms of the lease or Freehold Management Scheme. Where Grosvenor has granted a full repairing lease over a building the standard lease clause usually stipulates that the landlord (i.e. Grosvenor) will insure the property for the Insured Risks defined in the lease. Most leases require the insurance cover to be arranged with Royal & Sun Alliance (RSA) as the nominated insurer via the agency of Realty Insurances Ltd (Realty). Older leases may refer to predecessors of RSA and/or Realty.

Please check the specific terms of your lease for details of the insurance requirements.

REALTY INSURANCES LTD

Realty acts as insurance broker to Grosvenor and is responsible for arranging the insurance cover for the majority of the properties on the London Estate. Realty is an independent firm of Chartered insurance brokers and consultants. Whilst wholly owned by one of the principal Grosvenor Trusts, Realty conducts its day-to-day business totally independently of other parts of Grosvenor.

Realty acts for a number of third party clients, with non-Grosvenor business accounting for over half of its business, and has no allegiance to any particular insurer, maintaining agencies with circa 30 insurers.

Realty is remunerated for its services in relation to the Grosvenor Block Policies (GBP) in the form of commission or brokerage from the insurer. Realty earns the basic rate of commission for the placement of Property Owners Business in respect of the block policies and these rates are as follows:

- Policy Cover: 20%
- Terrorism Cover: 2.5%

Realty earns no other income in relation to the GBP.

If you would like more information about Realty or the services they provide please contact them directly as follows:

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Director – London Estate

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GROSVENOR BLOCK POLICIES

Where Grosvenor (as Landlord) has the responsibility to insure the building, Realty make arrangements for buildings, rent/alternative accommodation and terrorism insurance for the property under the terms of one of the four collective GBP – one for commercial properties (including mixed use buildings), one for houses, one for blocks of flats and one specifically for the Eaton Square portfolio.

Lessees who have the responsibility to insure the building can also make arrangements to insure the property under the terms of the appropriate block policy by contacting Realty. Where a lessee who has the insuring responsibility chooses not to take advantage of the GBP, arrangements must be made to insure the building in accordance with the specific requirements of the Lease. Grosvenor has asked Realty to monitor the insurance arrangements made by the Lessee in these cases to ensure that the cover is compliant with the terms of the Lease.

The GBP are currently placed with RSA and benefit from a bespoke wording designed to ensure:

- Lease compliant policy cover
- Comprehensive and consistent insurance protection across the Estate in accordance with the Grosvenor Trustees' requirements and good practice

GROSVENOR BLOCK POLICY COVER

The GBP provide some of the widest comprehensive 'all-risks' cover which includes but is not limited to:

- Fire, Lightning, Explosion, Earthquake, Storm or Flood, Escape of Water or Oil, Riot, Malicious Damage, Theft or Attempted Theft, Subsidence, Impact and Accidental damage
- Alternative accommodation and/or loss of rent if the property is made uninhabitable by Insured Damage
- Full value terrorism cover (via Pool Re), including cover for Damage arising from nuclear, chemical and biological attack

There are no policy excesses, even for subsidence, and no restrictive warranties.

RSA provide dedicated underwriters and claims handlers for the Grosvenor Block Policies ensuring that claims, queries and requests for information are responded to in a timely manner.

The interests of lessees, tenants and their mortgagees are automatically noted under the GBP by way of a General Interest Clause.

Realty have prepared a series of Fact Sheets giving information about the insurance cover under the GBP; these are appended to this guide.

Copies of the insurance documentation relating to your property can be obtained from Realty.

INSURANCE VALUATIONS

To ensure that properties on the Estate are correctly insured in compliance with obligations under leases granted by Grosvenor it is necessary for the building reinstatement (or insurance) valuation for each property to be reviewed annually to ensure it is accurate. The Grosvenor valuation is effective from 25th December each year.

Bespoke insurance valuations

On an annual basis approximately 20% of properties on the Estate are visited, inspected and valued for insurance purposes by independently appointed construction cost consultants who undertake the valuations in accordance with the Royal Institution of Chartered Surveyors (RICS) Reinstatement cost assessment of buildings guidance.

The resulting bespoke building reinstatement valuation is initially established by applying the appropriate construction cost rate per square metre to the gross external area of the property. This gives a total cost of demolishing and rebuilding the property (excluding tenant's contents) to closely match its existing design, configuration and specification, using matching materials and finishes, but undertaken in accordance with current building, planning and health & safety legislation. The valuation will also include allowance for professional fees at 15% (of the reconstruction costs), before adding an allowance for Value Added Tax (VAT) at the current rate. If the property is insured under the Commercial Block Policy the valuation will include VAT on all costs, if the property is insured under another block policy it will only include VAT on the professional fees.

There are various reasons for changes in the valuation sum insured compared to previous years including:-

- There may be no record of a previous bespoke insurance valuation.
- It may be a considerable time since the previous bespoke valuation was undertaken and during that time the costs of construction of a specific building may have been subject to different inflationary pressures to those allowed for within the annual indexation adjustments.
- Refurbishment works have been carried out to part(s) of the property since the previous bespoke valuation.
- The inspection has resulted in an updated gross external floor area; potentially because areas that were not previously accessible have since been measured and included in the valuation, the properties lease demise has been restructured, or because works carried out since the last bespoke valuation have increased or decreased the floor area.
- The costs of construction specific to the property you occupy may have increased or decreased. The cost applied to a bespoke valuation takes into consideration the age, design, configuration and construction of the property and also the quality of the interior finishes. Where bespoke and high quality materials have been used e.g. marble walls and floors, hand finished timber panelling and flooring, decorative plasterwork and bespoke kitchen and bathroom fittings; these can be subject to significant changes in construction costs.
- Mayfair and Belgravia are unique working environments with significant health and safety challenges and neighbourly liaison requirements affecting how construction works are undertaken which have a direct impact on the cost of construction.

If your property has been the subject of a bespoke valuation recently we will have written to you to explain the outcome of the valuation and the resultant impact on your insurance arrangements.

If you feel that the current valuation of your property is in need of review please contact us to discuss your concerns.

Indexation

Valuations for the remaining 80% of properties are amended annually by an indexation adjustment recommended by our consultants based on their knowledge of construction costs across the estate and applied to the previous year's valuation. This adjustment is to reflect changes in construction and other

costs compared to the previous year. If your property has undergone significant improvement or refurbishment since it was last inspected and valued for insurance purposes you should contact us to ensure the building reinstatement valuation is up to date.

For properties insured under the Commercial Block Policy only the valuation automatically includes a 50% uplift to allow for construction and general inflation during the period between any insured loss and the completion of the rebuilding of a property. However all premiums are based on the insurance reinstatement valuation (or 'Declared Value') excluding the 50% uplift.

INSURANCE CHARGES

The insurance year runs from 25th December to 24th December the following year. Most leases require the insurance costs to be paid as a single amount by the renewal date and Grosvenor aim to issue insurance invoices six weeks ahead of the renewal date to enable time for payment and continuation of cover.

Premiums are calculated on the basis of the insurance valuation and the occupation of the property to which the insurer applies a premium rate. The premium rates for the GBP are determined by the claims experience for the whole portfolio, the basis of cover and current market conditions. They also include Insurance Premium Tax and VAT (where applicable). The renewal terms are benchmarked annually by Realty to ensure that they remain competitive.

Premiums pay for buildings insurance cover and terrorism cover. As terrorism is a significant risk across the Estate it is a requirement of the Grosvenor trustees that the property is insured against terrorism.

One of the benefits of the block policy arrangement is that individual properties are unlikely to see premium rate increases following an unlucky run of claims as the premium rating is based on the claims experience of the whole portfolio. Realty has been able to negotiate preferential policy terms and premium rating for the GBP as a result of the economies of scale /bulk buying achieved by insuring the estate under the block policy arrangements.

If you occupy a commercial property, your lease will often have provision for rent payments to cease in the event of a significant loss. The policy can be extended to include cover for Loss of Rent. This means that where Grosvenor has arranged for this cover, the rent you would usually pay to Grosvenor will be paid by the insurer for the period that the property is uninhabitable. You may need to consider whether you should be insuring your own potential loss of rent if you receive a rental income from the property. You do not need loss of rent cover if you have a long lease or pay a peppercorn rent.

INSURANCE PREMIUM TAX

Insurance premiums are subject to Insurance Premium Tax (IPT). The current IPT rate is 12%. The premiums shown on your invoice include IPT.

INSURANCE ACT 2015

Following the implementation of the Insurance Act 2015 Insured Parties are required to provide the insurers with a 'fair presentation of the risk'. In practice, to provide the insurers with a fair presentation of the risk (i.e. your property), you need to ensure that you provide them with details of any changes which might alter their view of the risk. Examples would include if there is going to be a change of use (for example if the property is changing from an office to a private dwelling), if the property is undergoing works or is vacant. Any information needs to be provided in a clear and accessible format

Please contact Realty if you would like more information about the Insurance Act 2015.

CLAIMS

Any potential claims should either be reported to your Property Manager or to Realty direct.

FURTHER INFORMATION

For more information please contact

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APPENDICES

Grosvenor Commercial Block Policy Fact Sheet

Grosvenor Eaton Square Block Policy Fact Sheet

Grosvenor Residential Block Policy Fact Sheet

Grosvenor Flats Block Policy Fact Sheet