

# Index-Linking Update

## The changing landscape of Index-Linking

Index-linking is a percentage that is applied to the Declared Value of the property at each renewal to ensure that the value remains relevant through changes in inflation and rebuild costs. It should be noted that it is recommended that Rebuild Cost Assessments are undertaken every three to five years in order to ensure that the Declared Value of a property is adequate. This serves to prevent under-insurance which can negatively impact a claim.

The percentage of index-linking that is generally applied is based on recommendations by the Royal Institute of Chartered Surveyors (RICS) and it is the Building Cost Information Service (BCIS), who operate under the umbrella of RICS, that supply these to insurers. The index-linking amount tends to fluctuate month on month as it is forever being updated and reviewed to ensure that the values are as relevant as possible.

The way that index-linking is calculated is not purely on the general rate of inflation and includes allowances for the cost of items relating solely to the re-building of the property, which can vary for residential and commercial buildings. There are multiple elements that are considered within the rebuilding costs, and these include:

- **The cost of labour**
- **The cost of materials**
- **The cost of professional fees**
- **The cost of debris removal and site clearance**

With this in mind it is important to be aware that in the past twelve months we have seen index-linking percentages rise as the cost of labour and materials has increased. At present, index linking increases are as high as 18% for residential buildings and 10-15% for commercial properties. We are, however, optimistic that these levels will remain static over the course of 2023. This will constitute an equivalent increase in premium as the value of a property is increased. It must also be noted that index-linking is applied in addition to any rate increases and so it would be prudent to ensure that any budgeted amounts are taking both of these elements into account.

**If you have any questions in regard to this information, please do not hesitate to get in touch and we will do our utmost to assist.**