



Delegated Property & Casualty

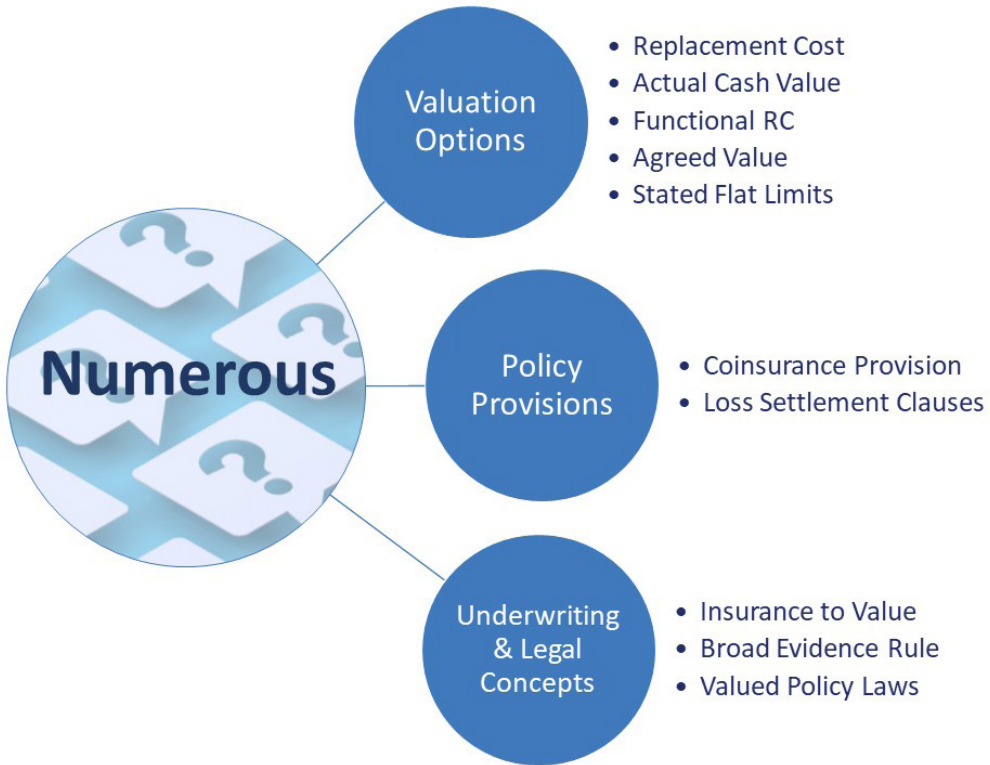
PROPERTY VALUATION



GenStar®

Property Valuation is the most misunderstood component of property underwriting

Here's why:



What's the Goal: To restore insured back to same financial condition that existed prior to the loss

What's the Issue: To determine what a property is worth at the time of loss and how to compute the loss adjustment is not straightforward

**Consider all the different parties involved
in the upfront underwriting and
back-end claims handling process**



All with competing goals and different expertise

WHAT CAN UNDERWRITERS DO TO AD



Question Up Front

Does the limit make sense for RC or ACV?
What does the insured expect to recover in the event of loss?

Assess ITV calculation
(Limit /Coin %/Sq Ft)
Is ITV in ballpark?

Use cost estimators:
consider construction,
age, location, occupancy,
quality of risk, etc...

**UNDERSTAND
DIFFERENT VALUATION
OPTIONS**



Seek Resources

Use inspection reports
and cost estimators!

Compare limit and
address discrepancies

Consider increasing
values appropriately or
changing terms from
RC to ACV

**UTILIZE CHECKS
AND BALANCES**



Know the

Understand
difference b
"market v
cost to

Market
What a wil
would pay
seller (purc
which has
do with ac
"bricks
constr

**MARKET
INCLUDES
LAND, WH
INSUR**

DRESS POTENTIAL VALUATION ISSUES?



Difference

and the
between the
value" and
rebuild

Value =
willing buyer
to a willing
phase price),
nothing to
tual cost of
/sticks"
uction

T VALUE
VALUE OF
ICH IS NOT
RABLE



Challenge Market Pressure

Remember your
mother's phrase, "I
don't care what your
friends are doing, I care
what you are doing!"

Quote what makes
sense, not what
another carrier allowed
in the past

EDUCATE THE AGENT
ABOUT PROPER
VALUATION



Don't Be Complacent

Do not renew with the
same limits year
after year

Reconstruction costs
are always rising

CHECK VALUATION
ON RENEWALS

MAIN FACTORS AFFECTING PROPERTY VALUATION

PROPERTIES ARE UNDERVALUED

- Industry statistics report most commercial properties have been underinsured for years
- Property Valuation is a widely misunderstood topic
- Renewal limits stay the same year after year
 - For example, Florida has more than \$240 billion of reconstruction cost exposed to very high storm surge risk. If a catastrophic event were to affect only 5% of homes and cause 30% storm surge damage, the reconstruction cost undervaluation approaches \$205 million, if reconstruction costs are not updated within just two years¹

ECONOMIC CONSIDERATIONS

- Labor shortage and supply chain disruptions
- Labor and material costs
 - Increased 13.5% from April 2021 to April 2022²
 - Reconstruction costs rose in all states, ranging between 11.2%-16.8% from April 2021 to April 2022³
 - Average annual price of lumber increased 340% for the ten-year period 2011 to 2021⁴
- Inflation
 - Consumer prices up 9.1% over the year ended June 2022, largest increase in 40 years⁵

DEMAND SURGE

- The larger the CAT event, the more demand stress
- An increase in costs of between 20%-30% can be expected as a general benchmark after a disaster
- Partial losses quickly exhaust coverage limits, particularly during CAT events



CONSIDER THE IMPACT OF UNDERINSURANCE

FOR THE INSURED: Failure to Indemnify

- Incur coinsurance penalty
- Can't repair the damage, thus property value declines
- Forced to pay out of pocket to rebuild
- Dissatisfied policyholders
- Potential mortgage default



FOR THE INSURANCE COMPANY / BROKER / AGENT:



- Undervaluation equals inadequate insurance premium
- Percentage of wind deductibles applied to underinsured property limits equates to inadequate wind deductibles
- Carriers, Brokers & Agents are exposed to E&O/Bad faith lawsuits, brand damage with dissatisfied policy holders
- Available property capacity shrinks
- Potential for insolvency



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Endnotes

1. Corelogic: <https://www.corelogic.com/wp-content/uploads/sites/4/downloadable-docs/2019-insurance-coverage-adequacy-report-0419-06-screen.pdf>
2. Verisk: <https://www.verisk.com/insurance/visualize/inflation-lifts-reconstruction-costs-as-fuel-prices-boost-volatility/#:~:text=Overall%20inflation%E2%80%94up%208.5%20>
3. Verisk: <https://www.verisk.com/insurance/visualize/inflation-lifts-reconstruction-costs-as-fuel-prices-boost-volatility/#:~:text=Overall%20inflation%E2%80%94up%208.5%20>
4. Macrotrends: <https://www.macrotrends.net/2637/lumber-prices-historical-chart-data>
5. Bureau of Labor Statistics: <https://data.bls.gov/pdq/SurveyOutputServlet>

For More Information on Property Valuation - Visit Diane Dahle's webinar:

"It Takes A Village to Raise Real Property Valuation"



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