



## Delegated Property & Casualty

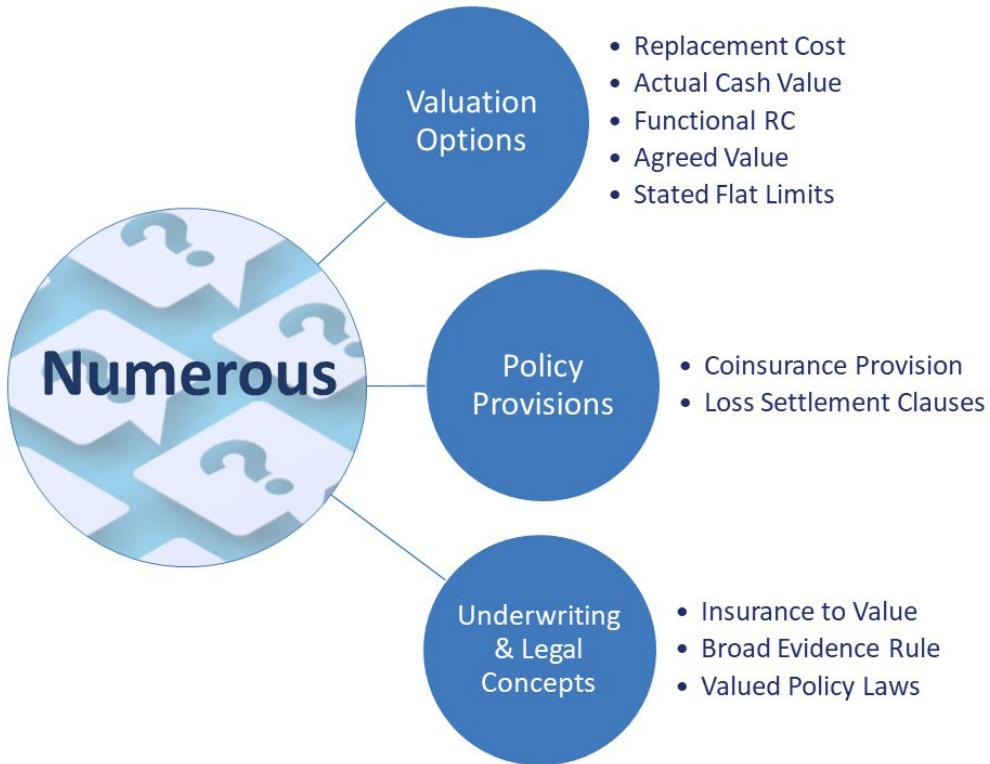
## PROPERTY VALUATION



**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 value" vs  
cost to repair

Market value  
What a willing  
would pay  
seller (purchaser)  
which has  
do with actual  
"bricks and  
construction

**MARKE  
INCLUDES  
LAND, WH  
INSUR**

# ADDRESS POTENTIAL VALUATION ISSUES?



## Difference

and the  
between the  
value" and  
rebuild

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

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 years<sup>1</sup>

## ECONOMIC CONSIDERATIONS

- Labor shortage and supply chain disruptions
- Labor and material costs
  - Increased 13.5% from April 2021 to April 2022<sup>2</sup>
  - Reconstruction costs rose in all states, ranging between 11.2%-16.8% from April 2021 to April 2022<sup>3</sup>
  - Average annual price of lumber increased 340% for the ten-year period 2011 to 2021<sup>4</sup>
- Inflation
  - Consumer prices up 9.1% over the year ended June 2022, largest increase in 40 years<sup>5</sup>

## 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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