



Delegated Property & Casualty

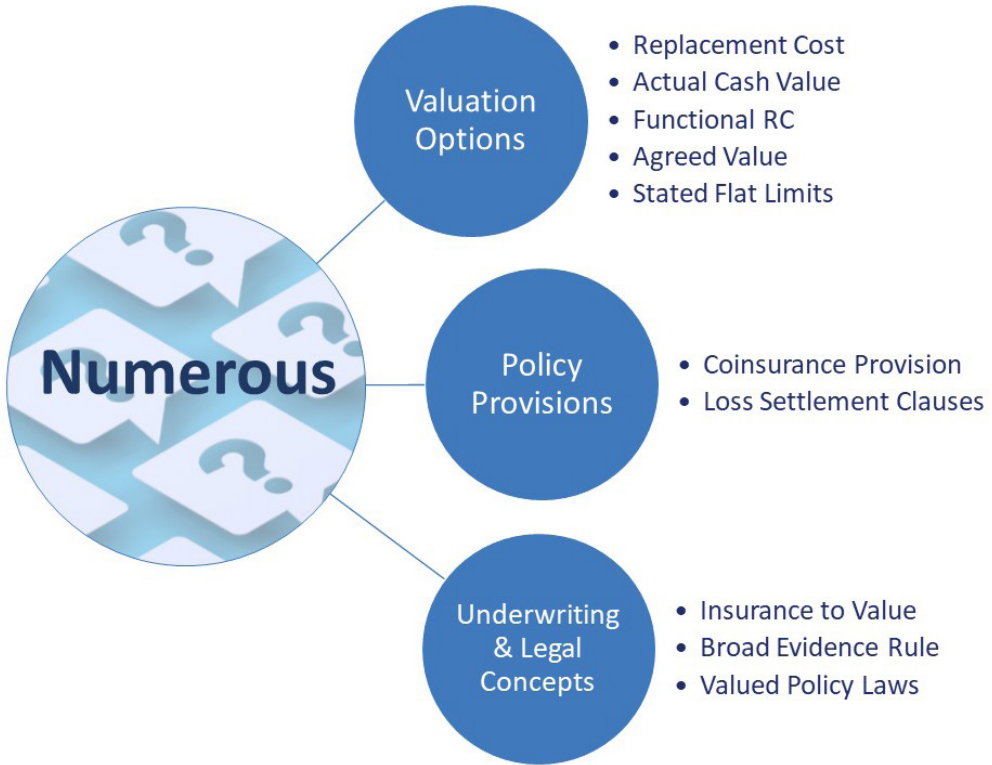
PROPERTY VALUATION



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 ADDRESS POTENTIAL VALUATION ISSUES?



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 Difference

Understand the difference between the "market value" and cost to rebuild

Market Value =
What a willing buyer would pay to a willing seller (purchase price), which has nothing to do with actual cost of "bricks/sticks" construction

**MARKET VALUE
INCLUDES VALUE OF
LAND, WHICH IS NOT
INSURABLE**



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

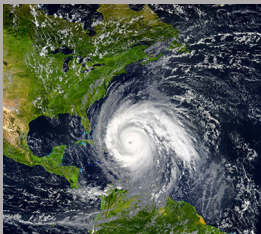
- Industry statistics report most commercial properties have been underinsured for years
- Property Valuation is a widely misunderstood topic
- Renewal limits stay the same year after year
 - For example, Florida has more than \$240 billion of reconstruction cost exposed to very high storm surge risk. 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



CONTACT YOUR DELEGATED P&C UNDERWRITER

Matthew Brown
Senior Vice President
Division Manager

Kristen Schick
Vice President, Unit Mgr. East Team
Tel. 203 328 5702
kristen.schick@generalstar.com

Diane Dahle
Senior Executive Underwriter
Tel. 203 328 5530
diane.dahle@generalstar.com

Peter Keogh
Senior Executive Underwriter
Tel. 203 328 5486
peter.keogh@generalstar.com

Kevin Lewis
Practice Leader - Contractors
Tel. 203 328 6262
kevin.lewis@generalstar.com

Terence Crowley
Vice President, Unit Mgr. West Team
Tel. 312 207 5411
terence.crowley@generalstar.com

James Rowell
Executive Underwriter
Tel. 203 328 5752
james.rowell@generalstar.com

Matthew Henry
Executive Underwriter
Tel. 312 267 8591
matthew.henry@generalstar.com

La’Kisha Stallworth
Senior Underwriter
Tel. 312 267 8606
lakisha.stallworth@generalstar.com

Matthew Harrington
Underwriter
Tel. 312 267 8563
matthew.harrington@generalstar.com

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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