

Navigating Property Valuation Challenges in Today's Insurance Market

Aiden Holliday, & Olivia Piekenbrock, Commercial Property Brokers

The property insurance landscape is constantly undergoing changes and challenges. These shifts are influenced by a multitude of interconnected factors, including weather events, natural disasters, inflation, disruptions in the supply chain, reinsurance dynamics and outdated valuations.

Accurate property valuation serves as the foundation for obtaining the right coverages, accurate claims payouts, more appropriate rates, and avoiding coinsurance penalties. While valuation discussions have long been a part of the insurance industry, the post-pandemic world has magnified these issues. Carriers are increasingly stressing complete submissions and updated valuations.

TIV vs. ITV – What's the difference?

While often used interchangeably, there is a significant difference.

TIV, or Total Insurable Value, is the cumulative value of buildings, contents, business income, and all other property items as described in the policy.

ITV or Insurance to Value is more simply referred to as the cost per sq. ft. of a building. In other words, it is the figurative cost to replace or repair the real property if loss or damage occurs.

TIV has always been a determining factor of eligibility and capacity. **Carriers and underwriting personnel are now equally focused on ITV.** Recent years have seen adjusted loss amounts far surpass reported values, pressuring carriers to “fix” the issue by mandating minimum thresholds and additional documentation. Weather-related losses in the U.S. eclipsed \$57 billion in 2023. This fact is highlighted in Bloomberg Intelligence reports that also note convective storm exposures accounted for 68% of all weather-related losses in the first half of 2023. To counteract predicted losses, emphasis has been put on adequate valuations for properties exposed to the increasingly frequent and severe weather events. Couple the increase in expected losses with a stressed labor market, inflation on prices of construction materials, goods and services and a volatile real estate market, and carriers are left with a need to right size their risk portfolios. Insurers need to demonstrate to reinsurers the robustness and accuracy of their portfolio data to negotiate capacity effectively. That starts with an accurate ITV.

Typically, the responsibility for property valuation falls on retailers and insureds, ensuring property owners accurately assess their assets and understand the risks of being underinsured. To alleviate concerns on potential undervaluation, insureds and retailers can work to provide up-to-date building valuation reports, also referred to as cost estimators. When completed with accurate building information, an idea of current replacement cost is attained.

RCV vs. ACV

Insurance companies will value a building or its contents based on its replacement cost. This can include or exclude depreciation. We commonly refer to this as Replacement Cost Valuation vs. Actual Cash Valuation. Replacement cost is simply that; the cost to replace or repair said building or item. Actual Cash Valuation is the replacement cost less a decrease in value of property due to age or use.

Setting clear expectations with insureds in advance allows for proactive discussions about proper valuation methods (for both RC and ACV) and the implications of underinsurance/coinsurance penalties. Surprises do not foster strong relationships. Undervalued properties may also create errors and omissions exposures, as failing to recommend proper solutions ranks among the top E&O claims.

Insureds are and will be faced with the tricky task of balancing what they can afford to pay for their property insurance and how much risk they're willing to take on. The better we can prepare them, the better the results. To address these challenges, insureds will need to be aware of their property valuations and couple this information with their coverage needs to seek appropriate terms for all parties.

Our team of experienced brokers at Arlington/Roe are here to help you navigate the current property insurance marketplace and provide guidance on key topics like valuations. Give us a call, and let us help you find the right solution.

Aiden Holliday

Commercial Property Broker
aholliday@arlingtonroe.com
317-554-8503

Olivia Piekenbrock

Commercial Property Broker
opiekenbrock@arlingtonroe.com
317-554-8506