

# The Importance of Proper Valuation

## in Today's Insurance World

It's estimated that over 75% of commercial properties are under-insured by 40% or more<sup>1</sup> due to improper valuation.

Sufficient property insurance relies on a wide variety of factors.

When estimating a correct property valuation, it's crucial to consider the cost of rebuilding, such as materials, contractor fees, and other expenses. Calculating an accurate Insurance to Value (ITV) is essential to ensure you are fully covered should a loss occur. Consequences of undervaluation include the property owner having to pay out of pocket to rebuild after a property loss and possible coinsurance penalties. **Note:** ICAT does not offer coinsurance.

### What is an ITV Calculation?

ITV considers the property value and other factors, such as inflation and material and service costs, to replace the property should a loss occur.

Example	Submitted ITV	Accurate ITV
<b>TIV</b>	\$8,000,000	\$10,000,000
<b>Premium</b>	\$64,000	\$80,000
<b>Deductible Cost at 5%</b>	\$400,000	\$500,000
<b>Loss</b>	\$9,000,000	\$9,000,000
<b>Out-of-pocket Cost (premium + deductible + uninsured loss)</b>	\$1,464,000	\$580,000

## ITV Consideration Examples

### Replacement Value

An estimate of the cost to replace or rebuild a property following a loss — this value includes:

- > Materials
- > Architectural Services
- > Building Permit Requirements
- > Labor
- > Debris Removal
- > Other Expenses

### Demand Surge

In the aftermath of a natural disaster, there is a greater need for materials and services, causing constraints that can increase costs.

**IMPORTANT:** Estimations should also take inflation and other market trends into account.

1. The Importance of Correct Property Valuations for Commercial Coverage, August 2022, <https://bitnerhenry.com/the-importance-of-correct-property-valuations-for-commercial-coverage/>



### Property Valuation

Calculating an Accurate Insurance to Value (ITV)

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### Factors that Impact Property Replacement Value

- > **Direct Expenses:** Includes materials and labor needed to restore and repair the property. Material and labor prices fluctuate, so inflation and supply chain trends should be considered when calculating an accurate ITV.
- > **Indirect Expenses:** Includes engineering services, consulting fees, and other expenses.
- > **Property Age:** Additional construction costs from upgrading outdated building materials and equipment.
- > **Building Codes:** Properties may require specific modifications or upgrades to comply with modern building codes. Ordinance and law coverage helps with this cost. It can be added as an additional coverage onto an ICAT policy and becomes a sublimit of the total scheduled value.
- > **Property Accessibility:** This may include bracing or other safety measures during demolition and rebuilding operations to ensure accessibility. This coverage is included within ICAT policies as a sublimit.

### Ways Policyholders can Ensure a Proper Property Valuation

1. **Utilize publicly available property valuation tools** such as Marshall & Swift
2. **Carefully read your insurance policy** to determine what additional coverage is provided and at what amounts
3. **The amount of insurance you buy should be revisited** with each renewal term — more often if:
  - > It is in a natural disaster-exposed area
  - > It has altered operations since coverage
  - > It has recent building upgrades or modifications
  - > There has been a recent implementation of new technology or equipment

### Keep in Mind

1. **A proper valuation assumes buildings** are well maintained, regularly updated and taken care of year-round.
2. **Poor maintenance can cause inflated loss costs** and potentially expose undervaluation problems.



**Be sure to work with an insurance professional to ensure you have an accurate property valuation.**



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