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A newsletter from Lighthouse Consulting, LLC

Keeping you off the rocks

The same thing only different: Insurance To Value (ITV)

My audit clients this Fall were particularly interested in ITV. Usually that means they are seeing unfavorable development in losses. While it is certainly true that many properties are underinsured, it is equally true that common policy conditions can increase the amount of loss. Let's see how it works.

Step 1: Replacement Cost Estimators (RCE)

Ideally each location should have its own replacement cost calculation using industry software. However, it is time consuming to enter all the data. The most efficient way is to embed the RCE into an underwriting workstation. Personal lines markets use workstations, as do some large commercial markets.

Absent a calculated RCE companies maintain ITV guidelines on based on construction and class of business.

Regardless of the method used, there's always the risk of undervaluation from temporary increases in labor and materials due to demand surge and supply chain problems.

Step 2: Getting rid of the debris

Damaged property doesn't take itself to the dump. It can be a labor-intensive expense that is not contemplated in the RCE. Property policies typically contain an extension of coverage for debris removal.

Step 3: Build Back Better

Each municipality has a building code, and that code regulates when and what upgrades are needed to be included in the rebuild. Enhancements may include adding sprinklers and new life safety features. Coverage is provided under the Law and Ordinance Endorsement. RCE's cannot calculate this due to the variety of local requirements. In addition, significant property damage losses can trigger business interruption coverage.

So now what?

Uncertainty is a certainty so it may help to understand which property market segments have the most uncertainty.

Personal lines should have the least uncertainty. RCE's and specific limits are typically used, and extensions of coverage are small.

E&S usually has restrictive contract language, writes specific limits but rarely uses RCE's so there is some undervaluation risk.

Large commercial property typically use blanket limits. RCE's may be used on inspected locations. Extensions of coverage have high limits.

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