

What's it Worth?

Presented by Ray Walshe

Managing Consultant &
Energy Practice Leader - Sales

TUV SUD Risk Consultants



RIMS
OREGON CHAPTER

Learning Objectives

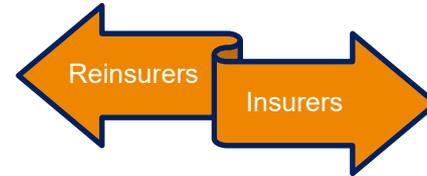
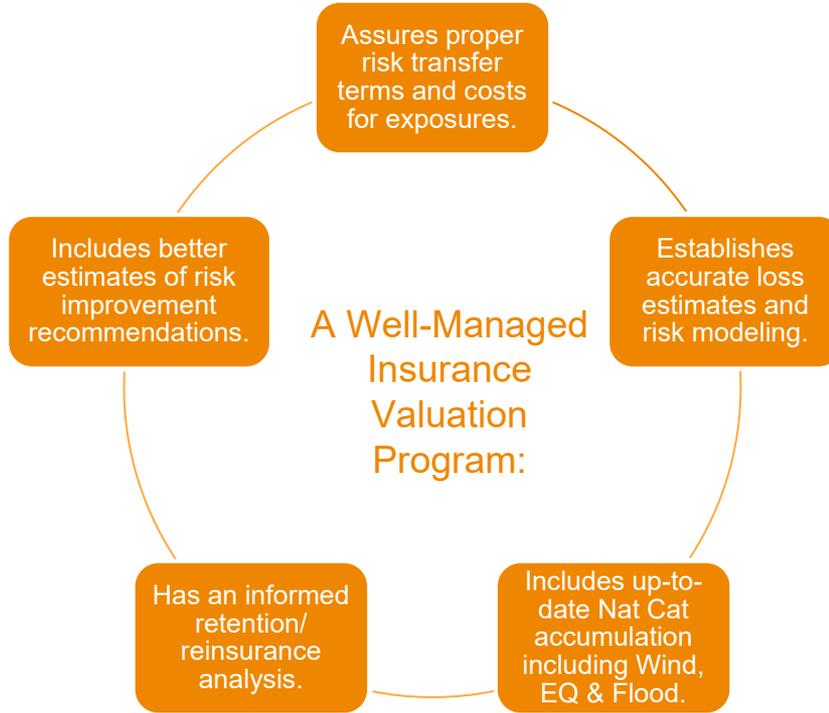
- Looking at today's current construction trends
- Examine fundamental valuation concepts and definitions
- Present available options for establishing credible insurable values
- Explore the common, yet overlooked, mistakes when determining property valuation

Today's Trends in Construction Costs

North America is seeing an unprecedented trend of 12-18% increase in non-residential construction costs between 2021-2022

- Volatile raw material costs
- Supply Chain Issues
- High demand for skilled labor
- COVID-19 and project delays

Getting Values Right



Establishing Proper Values

- **Replacement cost for insurance purposes is not developed in the normal preparation of business financial statements.**
- **Where do your values come from?**
 - Replacement cost appraisal
 - Building estimating software
 - Book Values – financial statements
 - Company asset records
 - Other appraisals (FMV, LV)
 - Don't know where they came from, they were here when I got here
 - I think it's worth....



Triaging the Large Portfolio

- **Start with the Statement of Values**
 - SOV in proper, up to date format
 - Need accurate square footages
 - Add \$/SF calcs to spreadsheet
- **Benchmarks**
 - Acceptable ranges
 - Compare to similar occupancies
- **Consistency**



Digging Into Desk Top Estimates

- **Using basic COPE data**
 - Commercial building estimating programs
- **Mapping tools and databases**
- **Reliable asset records**
- **80/20 Rule**
- **Availability of plant personnel**
- **Know the limitations**



Issues to Consider When Determining Insurable Values

- **Relying on Depreciated Values**
- **Not Utilizing Proper Cost Indices**

Relying on Depreciated Values

- **Replacement Cost coverage, as defined by your insurance policy**
- **Don't rely on the Balance Sheet figures.**
 - Not a true reflection of replacement cost.
- **How do you get proper replacement costs? ----->**



Source: GRC

Rick Lunt (Global Risk Consultants), "Don't Let These Common Property Valuation Mistakes Ruin Your Insurable Values," Risk & Insurance Insights

Not Utilizing Proper Cost Indices

- Determining credible values is only half the battle.
- Keep values current and aligned with inflationary cost indices and market trends.
- Start with the original acquisition cost, then apply an appropriate inflationary cost trends to determine an approximate, current replacement value.
- Be aware of how markets (i.e. construction) perform on a local level, rather than just relying on available information regarding national trends.



Underwriting Impacts

Scott Harbert, Senior Large Property Underwriter – AVP, Zurich North America

Base rates are calibrated on accurate Property Damage (PD) values and 12-month Business Interruption (BI) values

It minimizes the potential for under insurance by customers

Valuation can be a difficult conversation, but the result will build a more transparent and trusting relationship

It reduces E&O for brokers

Accurate values will ensure the best underwriting result and customer claims experience





**Thank
you.**

Ray Walshe
Managing Consultant &
Energy Practice Leader - Sales
TUV SUD Risk Consultants
(909) 315-0262
raymond.walshe@tuvsud.com