



# Why Most Property Insurance Values are Wrong

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# Agent's view of valuation issues





# Reality...





# Clear problems exist with ITV – Insurance to Value

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*“Inadequate values are a persistent problem for insurers, particularly for business personal property where carriers lacked a credible valuation tool. When we analyze business personal property valuations for an insurer, we find substantial evidence of underinsurance for whole books of business.”*

- Hartford Steam Boiler



# Clear problems exist with ITV – Insurance to Value

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*An estimated 64 percent of American homes are underinsured by an average of 19 percent, according to a 2008 survey by Marshall & Swift/Boeckh.*



# Clear problems exist with ITV – Insurance to Value

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*A survey by United Policyholders, a consumer advocacy group, said 75% of California homeowners affected by the 2007 wildfires in San Bernardino and Riverside counties were underinsured by an average of \$240,000.*



# Clear problems exist with ITV – Insurance to Value

*“60 % of non-residential property is under-insured in North America, some by as much as 40% or more.”*

- Lewin, Wright & Company



# Recent headlines confirm the beat goes on

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## ***Allstate looks to make homeowners pay more for roof repairs***

<http://www.chicagobusiness.com/article/20120202/NEWS01/120209925/allstate-looks-to-make-homeowners-pay-more-for-roof-repairs>

*“People just don't get their roofs fixed and then a hailstorm comes and we replace a \$20,000 roof when we're getting a thousand bucks from the customer and it's obviously not a good trade.” --  
Allstate CEO Thomas Wilson*

- Called “House and Home”
- Currently only in Oklahoma
- Only pays ACV if roof is over 10 years old
- Option for Homeowners to buy back full RC



# And apparently it's the industry's fault

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## ***State-run insurer charges too much, lawsuit says***

[http://articles.orlandosentinel.com/2012-02-07/news/fl-citizens-faces-class-action-suit-20120207\\_1\\_christine-ashburn-state-run-insurer-citizens-property-insurance-corporation](http://articles.orlandosentinel.com/2012-02-07/news/fl-citizens-faces-class-action-suit-20120207_1_christine-ashburn-state-run-insurer-citizens-property-insurance-corporation)

- Citizens Property Insurance, the state-run insurer that covers nearly 1.5 million Florida homes, uses a home-valuation method that results in policy holders paying up to twice as much as they should in premiums, according to a lawsuit filed Tuesday.
- The lawsuit centers on a computer program called Value360 that Citizens uses to calculate the "replacement cost" for homes if they are damaged or destroyed, a figure that determines how much coverage a homeowner has to buy on his house.
- According to the lawsuit, the program churns out cost calculations that are as much as double what the homes are actually worth – resulting in skyrocketing premiums.



# And apparently it's the industry's fault

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*“Consumers all over this nation are finding that the policies they bought for their homes do not adequately provide coverage to rebuild in the case of a total loss. Yet insurers already have models that they say provide an accurate estimation of the rebuilding cost. If that’s so, why are so many people now facing financial hardship because they are being forced to pay much of the rebuilding cost from their own pockets?”*

-California Insurance Commissioner John Garamendi



# And apparently it's the industry's fault

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*“The law is that the homeowner has the duty to set his own limits, but when you walk into the insurance agent’s office, he’s never, ever going to ask you how much insurance you want. Instead, he’s going to ask you what kind of house you have and what the square footage is, and then will calculate your costs and coverage based on an industry computer model. If that turns out to be an underestimate when you make a claim, **the agent can throw up his hands and say it’s not his responsibility to set your limits.**”*

- Amy Bach, executive director of United Policyholders, a nonprofit consumer education organization.



# Not necessarily, Amy

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In [Martinonis v. Utica National Insurance Group](#), the Massachusetts Court of Appeals held the agent might be held liable for failure to adequately insure a home based on the long-term relationship between the agency and client wherein regular reliance on the agent's advice and assurances regarding policy limits **created a special relationship**.

The agent obtained a homeowners policy for the plaintiffs whose home was subsequently destroyed by a fire. The policy liability limit of \$469,000 was paid in full by the insurer. The plaintiffs contended that the actual damages were \$1,164,012.43 and that the agent was negligent in failing to advise them to obtain higher limits.



# And this wound is self-inflicted

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The Court of Appeals stated: “[T]here is no general duty of an insurance agent to ensure that insurance policies procured by him provide coverage that is adequate for the needs of the insured... **[however] in an action against the agent for negligence, the insured may show that special circumstances prevailed that gave rise to a duty on the part of the agent to ensure that adequate insurance was obtained.**”

The insureds presented facts demonstrating a long relationship with the agent (almost 10 years), including procurement and advice on insurance policies placed with him on a variety of other properties, that led them to rely on his expertise. **The agent had previously advised the insured that their contents limit was inadequate and, following his advice, they increased that amount. However, they contended that, after expressing concerns about their dwelling limit, the agent assured them that the limits were proper.**



# Result?

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In the court's opinion, the plaintiffs' testimony about the long relationship with the agent, **the reliance placed on his review of the adequacy of their insurance, his specific assurance on past occasions in response to inquiries that the policies had adequate limits of liability, and the specific assurance in this case that the limits were proper,** were sufficient to defeat a motion for summary judgment.



# Sign of the Future?

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*“However, Citizens has already started moving away from Value360. Late last month, the insurer announced that homeowners would have other appraisal options, including those generated by three different software programs, plus cost valuations prepared by licensed appraisers.”*

- Orlando Sentinel, same article as previous slides



# And it makes no sense

- Consumer asks value of:
  - diamond ring
  - painting
  - specific piece of machinery
  
- But if they ask value of a building?



# Plus, the price of error is too high!

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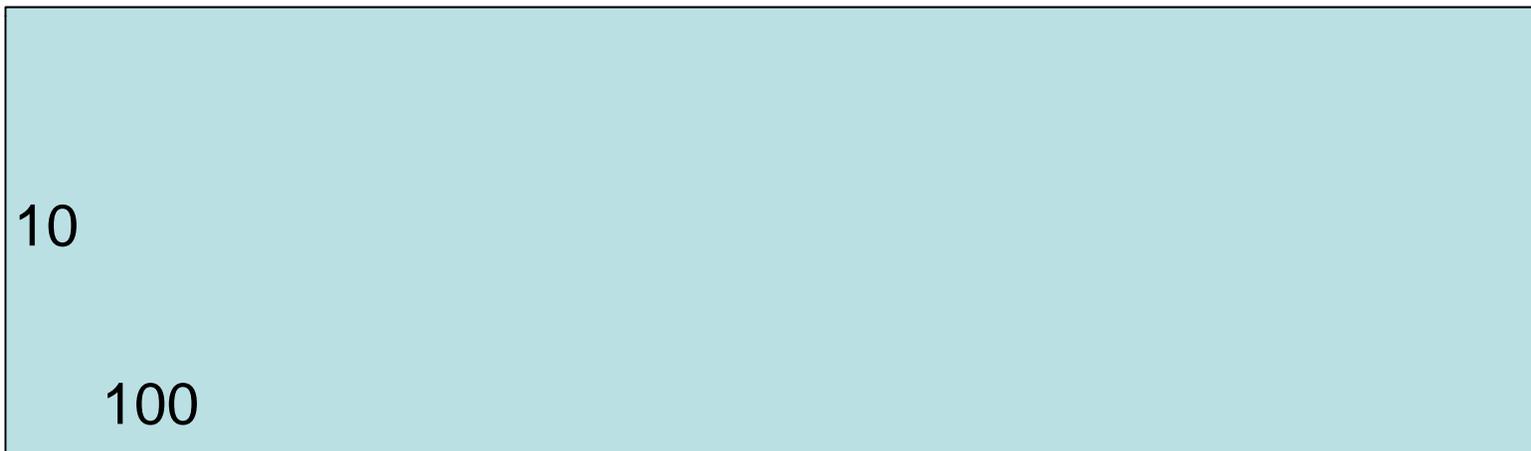
- Underinsurance
- Missing premiums
- Lost commissions
- Lower contingencies
- Angrier insureds
- More bad press for the industry
- Increased E&O exposures



# One reason for errors: most common methodology is flawed

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Square footage = 1000

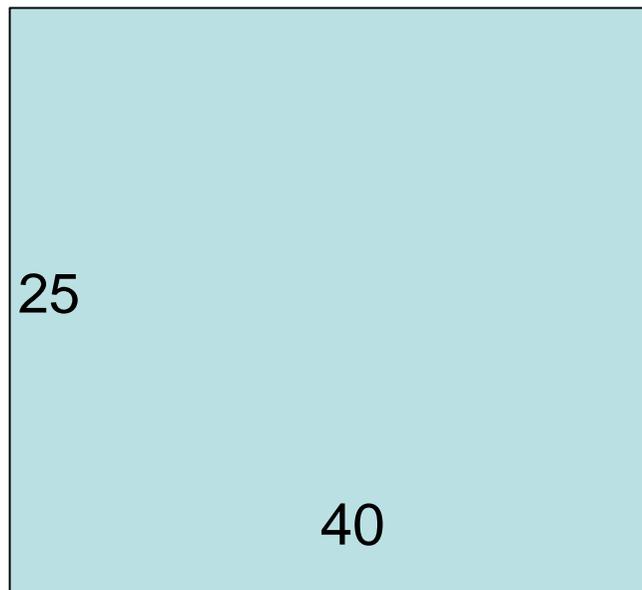




# Now check this one

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Square footage = 1000





# How wrong is it? Let us count one way.

Ballpark assumptions: not meant to be realistic, just to give numbers to work with

10 blocks per running foot length of wall @ \$1.00 per brick  
+ labor cost of \$.10 per brick  
= \$11 per running foot

25 x 40 = 130' wall length x \$11 = \$1430

10 x 100 = 220' wall length x \$11 = \$2420

**Same square footage**, yet estimated **69%** difference in RC



# Issues of ITV are not just a building problem

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## Personal Property

1. How big is a ballpark?
2. Growing valuation complexities vs Old paradigms



## Example: if old concepts were accurate, what of today?

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	Washer/dryer	Entertainment	Refrigerator
1991	\$400	TV/stereo - \$500	\$300-600
2011	\$2200	Home theater - \$1500- 30,000	\$600-3500



# Example: if old concepts were accurate, what of today?

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- Contents of old basement:  
washer/dryer; furnace; Christmas decorations; junk
- Contents of current “basement” (now recreation room)  
“Man cave”  
washer/dryer; furnace; home theater; Nintendo/Xbox/Sony;  
additional refrigerator, freezer; ice machine; popcorn machine;  
couches, chairs; pool table; ping pong table; foosball table



# Best solution? Insured “DIY”

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“With the current changes in housing values and construction costs, it’s a good idea to revisit the cost of rebuilding every few years,” says J.D. Howard, executive director of Insurance Consumer Advocate Network (iCAN).

***“If there’s a discrepancy between your numbers and the insurance company’s, you must insist that yours are the correct ones. If your insurer resists, find another insurer.”***

- Amy Bach, United Policyholders



# Best HO DIY

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The ***very best method*** is to hire a local contractor to inspect your house and come up with an estimate of how much it will cost to rebuild. The fee will fall roughly in the range appraisers charge — 0.1 percent of the estimate.

- Amy Bach, United Policyholders



# Other HO DIY

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- Go online: The next best method is to use a computer model similar to those used by insurance companies. Bach recommends two online programs that you can download for a small fee — [Accucoverage](#) (\$7.95) and [HomeSmart Reports](#) (\$6.95).
- Take inventory: You'll also want a careful accounting of the contents of your house. To make the process easier, download [inventory worksheets from United Policyholders](#), or [use online forms from the Insurance Information Institute](#). In addition, take pictures of every room and e-mail them along with a copy of the inventory to a friend or relative so there's a backup that won't be destroyed along with your house.



# Solution – Commercial DIY

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- [www.swiftestimator.com](http://www.swiftestimator.com)
- “SwiftEstimator charges are calculated per section. One section may be all that is needed to complete a building report. There may be some instances where more than one section is needed to complete an estimate. For example, a hotel may have a series of different businesses under one roof such as a restaurant, beauty salon, gift shop etc. Each of these occupancies should have their own section to allow for construction style, design and quality of that particular business.”
- Pricing: \$20 per section



# Other Commercial DIY

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- Commercial appraisal services
- General Contractors
- Professional business valuation firms



# ITV to infinity and beyond: iToys

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- Issues for both business and personal:
  - Steadily dropping hardware costs
  - Steadily increasing data values
  - Consumer confusion as to real costs of mobile devices
- Solution: shift emphasis from insurance coverage to risk management



# Additional E&O food for thought: Connecting coverages to valuations

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- Flood
  - Misuse/nonuse of endorsements
  - NFIP controversies
  - Business Income in NFIP
  - Excess flood
- Business income
  - period of restoration
  - proper endorsements (ex: ordinary payroll)



# For more information:

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- Talk to me
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- Drop by my web site: [www.InsurancelsFun.com](http://www.InsurancelsFun.com)
- Sign up for our free newsletter
- ALL OF THE ABOVE!