



CHUBB®

Why Does Proper Valuation Matter to Our Client?

Benefits of Property Insurance Valuation

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Insurance to Value (ITV) 101 - Fundamentals

- Accurate Values are the foundation of pricing and policy limit structure
- Accuracy ensures the correct premium can be calculated for the exposure and the adequate limits are deployed in a loss.
- If inaccurate values are used, the client may assume more risk and lack the cover they thought they had.
- Low ITV is often unintentional and based on outdated appraisals.
- Get ahead of ITV before the time of loss



Property Valuation is Broader than Just the Building!

- Replacement Cost - Cost to rebuild or replace the building with like kind and quality materials.
- Actual Cash Value (ACV) – current replacement cost less depreciation.
- Contents Values - often overlooked, and include furniture, fixtures, machinery and equipment, stock and inventory.
- Business Income- Change in labor cost, product/space availability, and delay in delivery times impacting the value of BI loss.
- Often these can be extremely unique to an occupancy and difficult to determine value accuracy.
- Inventory valuation remains a hot topic with the challenges of supply chain shortages and transition out of JIT business models.
- Resources are available online to provide insight into \$ per sq. ft. such as *Cumming's* US Construction Per Square Foot Data.¹
- Are the clients' values trending up every year?

U.S. Costs per Square Foot of Gross Floor Area 2021

CUMMING
Building Value Through Expertise

	West		Midwest		South		East			
	Washington DC	Philadelphia	New York	Boston	Raleigh-Durham					
RESIDENTIAL	▲	▼	▲	▼	▲	▼	▲	▼	▲	▼
Single Family Detached-Medium Quality	\$276	\$230	\$304	\$254	\$396	\$330	\$337	\$281	\$222	\$186
Apartment/Condominium-Mid Rise	\$418	\$322	\$512	\$393	\$859	\$461	\$510	\$392	\$373	\$288
COMMERCIAL / OFFICE										
Single Story	\$513	\$260	\$382	\$319	\$448	\$373	\$381	\$318	\$279	\$233
Mid-Rise	\$623	\$519	\$762	\$635	\$892	\$744	\$760	\$634	\$557	\$465
High Rise	\$716	\$596	\$876	\$729	\$1,026	\$854	\$874	\$728	\$641	\$533
RETAIL										
Neighborhood Strip Center	\$322	\$268	\$393	\$328	\$461	\$384	\$392	\$327	\$288	\$240
Regional Mall	\$480	\$400	\$587	\$489	\$687	\$573	\$586	\$488	\$429	\$357
HOSPITALITY / LODGING										
Three-Star Hotel	\$523	\$436	\$640	\$534	\$749	\$625	\$638	\$532	\$468	\$317
Five-Star Hotel	\$747	\$516	\$914	\$762	\$1,108	\$892	\$912	\$760	\$673	\$456
WAREHOUSE / MANUFACTURING										
Warehouse-Regional Distribution	\$225	\$161	\$276	\$197	\$323	\$231	\$275	\$196	\$202	\$144
Warehouse-Light Industrial	\$250	\$179	\$306	\$219	\$359	\$256	\$306	\$218	\$224	\$160
Manufacturing-Tech Laboratory	\$625	\$522	\$765	\$638	\$895	\$747	\$763	\$637	\$559	\$467
HEALTHCARE										
Long-Term Care Facility	\$4,035	\$3,770	\$4,066	\$3,800	\$4,120	\$4,103	\$4,354	\$3,770	\$3,770	\$3,800

1 Cumming's US Construction Per Square Foot Data

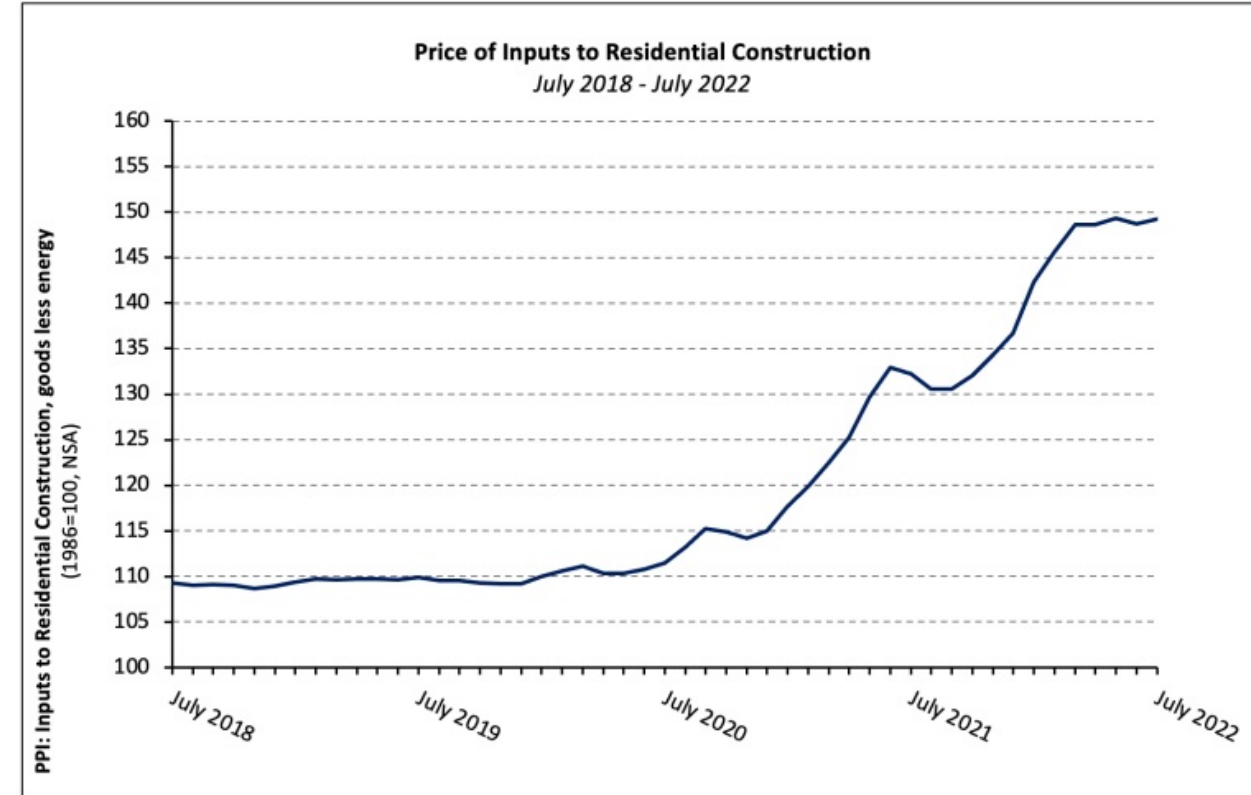
The Perfect Storm - A Historic Supply Chain Crisis

- More frequent and severe catastrophic natural hazards events (climate change, windstorms, wildfires, flood loss)
- 2021 NOAA – Record high nat cat losses and \$1 B events
- Pandemic curtailed production, closed factories, ports
- Transportation and Logistics Industry
- Labor Shortages / Construction Trades
- Increased Consumer Demands / Bullwhip
- Lumber, steel, gypsum, plastics, etc.
- Record one year increases in inflation in the past 40 years



Cost Challenges are Real – Cost to Rebuild Property has Gone Up!

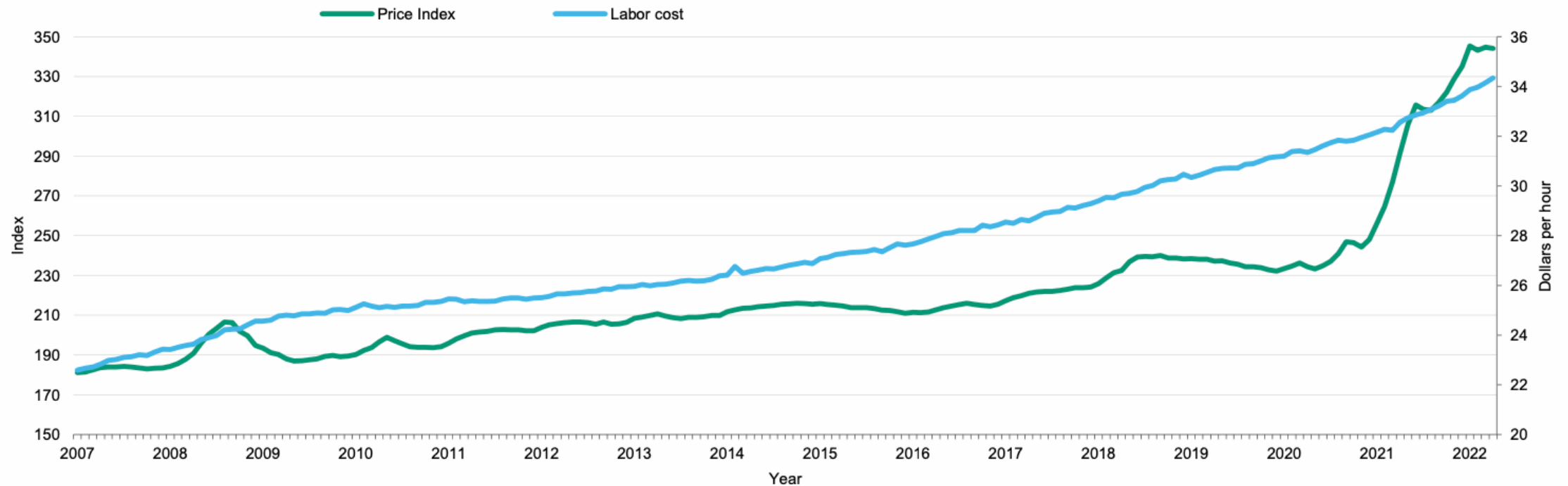
- Building materials prices increased 20.4% year over year (April 2022) and have risen 33% since the start of the pandemic. Since the start of the pandemic, services prices are now 39% higher.¹
- Softwood lumber increased 6% in March following a 2.6% increase in February and 25.6% jump in January. As a result, the index increased 36.7% over the first three months of 2022. Since reaching its most recent trough in September 2021, prices have almost doubled, rising 90.4%¹
- Gypsum products increased 1.6% in March. Gypsum products prices are 20.8% higher year over year.¹
- Ready-mix concrete came down 0.6% (seasonally in March) but remains elevated after climbing over the prior 13 months. It is 9% higher compared to the January 2021 reading.¹
- Steel products, in contrast, declined 4.9% (not seasonally adjusted) in March – the third consecutive monthly decrease after record-breaking increases over the prior 15 months. Although the first three months of 2022 have been good months for the cost of derivative steel products, the price index more than doubled since the start of the pandemic.



1) Producer Price Index (PPI) Report, April 2022

Higher Cost Drives Loss Severity

Construction material prices remain elevated, construction labor costs continue to rise

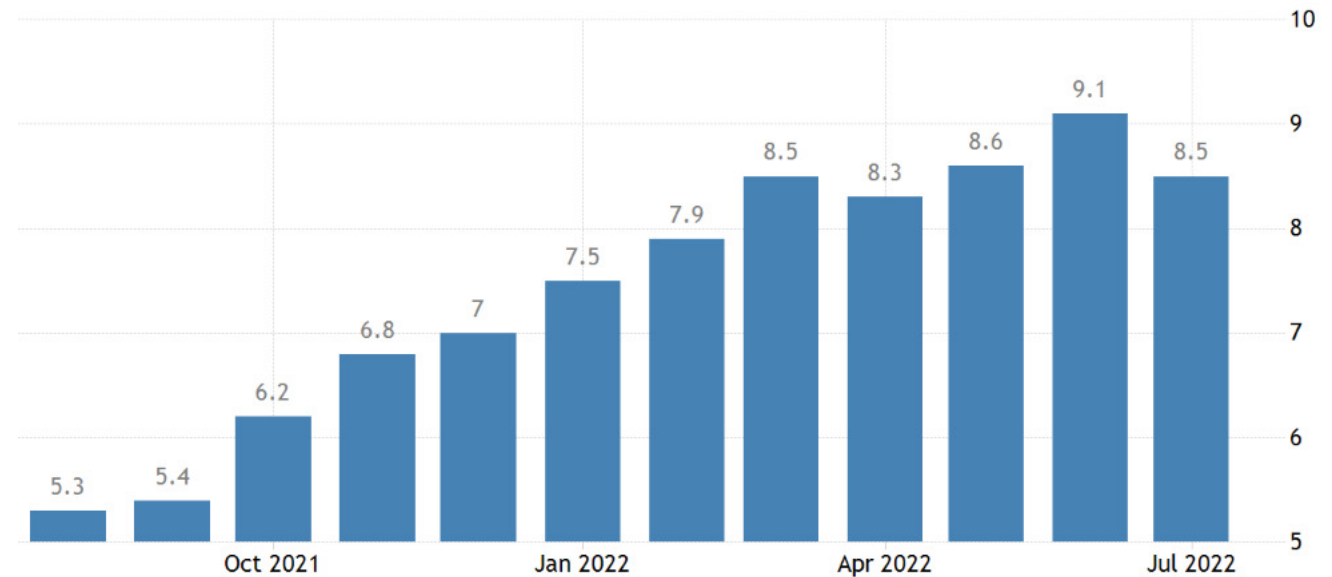


Consists of producer price index by commodity, construction materials; and average hourly earnings of all employees, construction
Source: Moody's Investors Service, U.S. Bureau of Labor Statistics

Inflation Rate in US

- Annual inflation rate in US accelerated to 8.5% in March 2022
- Highest since December 1981 with market forecasts of 8.4%
- Energy Prices increased 32%
- Excluding volatile energy and food, the Consumer Price Index (CPI) rose 6.5%, the most in 40 years
- Supply chain bottlenecks will persist and consumer demand remains elevated
- Rise in litigation / costs and jury awards +20% since 2014
- Compensation costs for civilian workers increased 4.5 percent for the 12-month period ending in March 2022

Source - US Bureau of Labor Statistics



TRADINGECONOMICS.COM | U.S. BUREAU OF LABOR STATISTICS

Challenges in Valuing Commercial Structures

- Increases in labor and material costs intrinsic to calculation / estimates
- Asset replacement undervaluation affects modeling outputs
- The risk is less informed underwriting decisions and inadequate rates
- Catastrophe models are challenged to keep up with climate change, inflation, and the new normal
- Models' forward-looking projections strain to account for the increased frequency in nonconforming weather events, seesawing damage repair costs, and longer-duration business interruptions caused by both widescale and prolonged power outages
- Highly volatile pricing of building materials through 2021, due in large part to supply chain disruptions



Undervaluation of Assets

- Rising costs of construction materials and labor at a time of higher inflation strongly suggests that asset replacement costs are presently undervalued
- This can result in inadequate rates, pricing, duration of claims adjustment and payments
- Deepening the impact are more frequent and severe nat cat events and supply chain / inflation.
- Demographic shifts to higher risk geographies along coastlines and the wildland urban interface
- Aging building stock and rising GDP in the US has increased property values
- Contents (furniture, fixtures, machinery & equipment, inventory, etc.) also require updates to ensure there is sufficient coverage



Due Diligence

- The insured is responsible for reporting their property and its value
- Broker or agent must ensure that the values reported represent the accurate present cost to repair and/or replace the building and its contents with materials of like kind and quality.
- To determine proper replacement cost valuations, cost indexes that compare property and content costs across several quarters or years are available from various firms in the market
- Due to the supply chain crisis, it is imperative for insureds to also communicate their current inventory fluctuations to their insurers
- In effect, asset undervaluation may result in unintended risk to the insured organization's balance sheet.
- Senior management may fail to set aside enough capital to cover the organization's retained risks or may procure property insurance with **insufficient coverage limits**



What can be done? Take Action for your Client!



Are values for the client trending (up) each year with inflation and normalized cost increases? Values that are static year over year are a red flag!

Resources are available on-line what can provide insight into \$ / sq. ft. construction costs for various occupancies, including geographic differences.

Understand real estate and housing development trends, access to available construction materials and local construction personnel, and other loss exposure information.

Risk managers and property owners may consider the value of entering into agreements with building contractors in advance to ensure the availability of construction materials and services at that time.

To assure more comprehensive underwriting of a building's replacement value, more frequent and in-depth property appraisals from qualified sources are in high demand and needed.

Such appraisals should occur on an annual basis at a minimum and consider the impact of more frequent catastrophic weather events, potential supply chain disruptions and rising inflation in valuing replacement costs.

Work with your Underwriter!

- Appraisals
- Current Inspections
- Risk Engineering / Loss Control
- Client Service
- Confidence in Risk Transfer

Additional Accurate ITV Benefits

Precise valuation data builds the framework for ensuring you have the coverage and limits you need when claims occur. Forces a closer look at adequacy of deductibles.

More accurate valuations generate improved modeling, enhanced risk management of assets and business continuity

More accurate valuations allow for more precise pricing of property risks

Having solid current valuation data becomes invaluable when claim time comes – no need to scramble for information or deal with questions on validity of past data.

More complete and current property values mean a more accurate risk profile, which when run through cat modeling programs, can result in more favorable rates.

You may discover property you were not accounting for – outdated SOVs that failed to include all the buildings! If the property is listed on the SOV, it isn't getting covered, leaving you open to risk.

New valuations help you account for changes in your properties over time

You may find you were paying for buildings that no longer exist. A current valuation helps identify phantom properties that you may still be paying for.

Rely less on institutional knowledge about certain properties – get new confirmed data.

Confidence in knowing the customer has the right coverage at the right rating!

It's a Win-Win!

Achieving adequate valuation is beneficial for both the insured and Chubb.



The insured will have peace of mind knowing that, in the event of a covered total loss, they likely will be fully indemnified.



By rating off the 100% values, Chubb will be adequately paid for the capacity provided, ensuring the ability to pay insured claims and remain a stable partner for years to come.

Chubb. Insured.SM

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