Charterfields
Chartered Surveyors

Who is best placed to advise you on your declared values?

Key highlights

- Clients relying on independent assessment to set their declared values need to have confidence that, in the event of a loss, these assessed figures are accurate, defendable and can stand up to insurance market scrutiny

- While property valuers and quantity surveyors have a role to play in fixed asset management and new construction costing, their limited knowledge of insurance policy terms and how insurers view property risks, could leave owners exposed

- Insurers now expect higher standards from policy holders in terms of information on the risk provided prior to placement, including how declared values have been arrived at

- Insurers are also more carefully reviewing values after an insured loss, which not only requires owners to be open on how the insured values were arrived at, but also requires them to provide supporting detail on the assets impacted

- An independent advisor, specialising in reinstatement cost assessments for insurance, offers clients the comfort that, not only have they got the correct declared values, but that they will have the supporting information to respond to insurers quickly and easily during placement, and to speed up claim settlement in the event of a loss.

Before you use an external consultant to assist with determining your values at risk, here are some questions to consider:

Does the consultant have an insurance focus?

Firms that specialise in reinstatement cost assessments will draft their reports expressly with the key information required by insurers and brokers in mind.

Other consultants may offer reinstatement opinions as part of a market valuation report or as a supplementary report to other services, but these standard reports typically contain information not relevant to insurance placement or they leave out important insurance points.

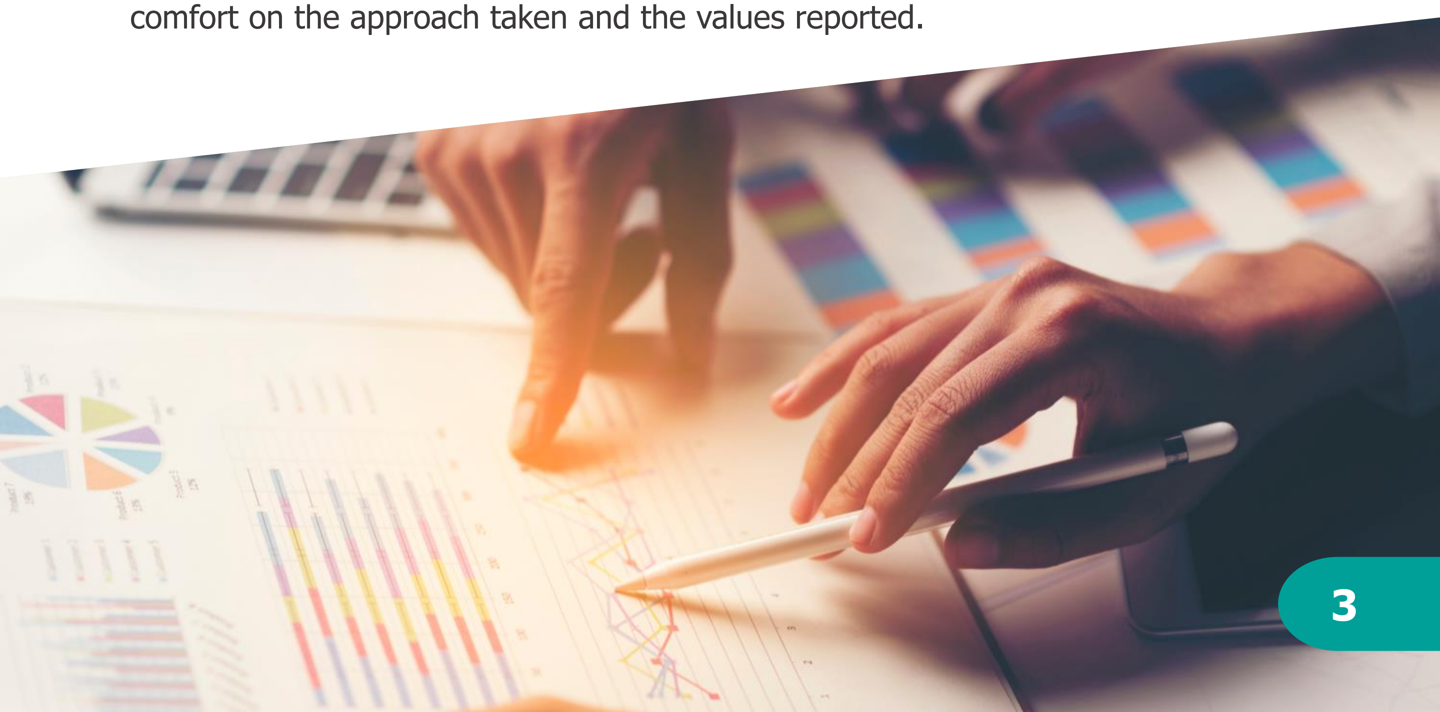
For example, the treatment of financing, initial costs, preliminaries, and value added tax, can differ significantly between a 'new build' cost and what is required for an insurance 'reinstatement' scenario.

How does the report treat demolition and debris removal, the presence of asbestos, the potential requirement for shoring up of neighbouring property, cost escalation during the policy period and cost escalation during the rebuild period?

Getting this detail wrong can impact the ability to place the risk, the pricing of premiums and/or the negotiation position in the event of a loss.

Does the report contain the correct level of detail?

When a market value report from a property consultant includes a reinstatement opinion, it is usually just a single figure without supporting analysis or clarity on what is or is not included. This is often insufficient for brokers and insurers to have comfort on the approach taken and the values reported.



Conversely, costings from quantity surveyors or other similar consultants can be too detailed, instigating further questions from insurers or reinsurers, and in doing so, slowing the placement process.

Too much detail can also tie the asset owner and their advisors' hands in the event of a loss.

Having the correct level of detail in a cost assessment report provided to insurers can help them quickly understand the risk, and can also ensure that the asset owners have more flexibility in the event of a loss.

Will the assessment match the policy terms?

The demarcation between what is considered plant and what is considered buildings is often inconsistent between valuation standards, property consultants' reports and what is actually specified within an asset owner's insurance policy terms.

An assessment should consider what needs to be included under the policy, including the treatment of rented assets such as vending machines and forklift trucks, for which the owner may have an obligation to insure.

Moreover, there could be owned assets at third party locations or offsite which would fall under the existing policy coverage.

Reports and analysis by specialist insurance cost assessors are produced with a client's specific insurance policy terms in mind.

Are the reports accepted by the insurance market?

Declared values, and the basis behind these, are passed by the asset owner's advisors to insurers. These then find their way onto the desks of reinsurers and other parties involved in the placement of the risk.

Not all of these parties will have knowledge of the location or asset being considered and they, therefore, rely heavily on the credibility and content of any cost assessment report in setting their premiums or placement terms.

While large property valuers or quantity surveyors may have significant brand recognition, this does not always translate into credibility in the insurance market or for the assets being insured.

Major lead underwriters at insurers have particular specialisms and place more credence on reports by specialist insurance cost assessors than property consultants, quantity surveyors or other similar consultants.

Who will carry out the assessment?

International property and construction consultancy firms have large numbers of offices and typically provide a huge range of services globally. But this scale, and the fact that insurance related work makes up a fraction of their global revenues, can mean that they struggle to ensure consistency in insurance related work reporting or service delivery.

Conversely, specialist insurance valuers provide global coverage delivered by a centralised, highly experienced team that can maintain consistent quality and service.

Similarly, while there has been a drive to create global property market valuation standards, this has not yet been applied to insurance cost assessments. Accordingly, there are still inconsistencies in terms of the approach applied, as well as the educational and experience backgrounds of the personnel used on these assignments by some consultants.

Staff used for cost assessments at property consultants will often be from a project management or a quantity surveying background and will have limited knowledge of specialist assets, plant and equipment.

In contrast, staff at the best reinstatement cost assessment firms include trained and experienced quantity surveyors (for building valuations) and qualified plant & equipment valuers (for contents).

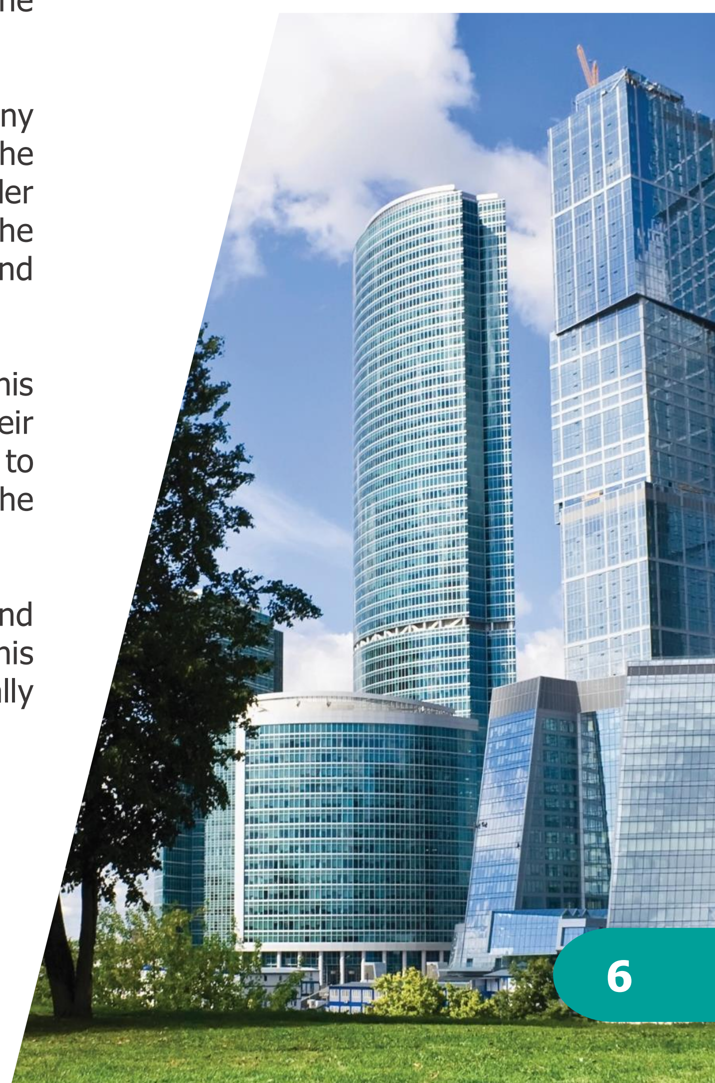
Has the firm’s output been ‘tested’?

One of the advantages that specialist insurance cost assessors bring to any client is the experience of having had one or several previous assessments ‘tested’ as a result of an insured loss after the submission of the report.

This experience not only helps the company and individual valuers understand the questions and concerns of the policyholder and insurers after a loss, but it also tests the report content, accuracy of the values and the approach taken by the assessors.

Specialist firms have learnt through this process over the decades, meaning that their reports bring an extra layer of credibility to both policyholder and insurers relying on the contents.

Even large older property consultants and quantity surveying firms may not have this depth of direct loss experience, potentially leaving policyholders exposed.



What approach is being used?

Typically, for buildings, property consultants and quantity surveyors will use the gross internal floor area and apply a published unit rate per square metre (for example from the Building Cost Information Service in the UK) to arrive at the current reinstatement cost.

However, this rate data has significant limitations depending on the assumptions made. For example, these rates are averages and published building cost rates per square metre by quantity surveyors can vary by up to 40%. Which rate is appropriate?

These published rates may not include insurable costs such as owner's costs, contingencies, professional fees, VAT, fixtures and fittings and allowances for debris removal and cost escalation.

The assumptions behind unit rates are therefore critical to ensuring that the results from this approach are valid.

Specialist insurance cost assessors will use a combination of 'first principles'- applying an elemental approach to each of the major components to build up replacement costs - as well as using analytical models created over numerous global insurance valuations to benchmark and adjust published rates.

Do they have knowledge of specialist assets?

As above, many consultancy firms use unit rates to advise on reinstatement costs for building assets, but this approach doesn't apply for specialist assets. Heritage properties, infrastructure, plant and equipment, and unique assets all require specialist expertise.

Dedicated insurance valuers have an extensive, and often many years experience, in unusual and specialist asset types such as listed properties, power plants, high end hotels, railways, airports and sports facilities.

Expert insurance valuation firms have a global database of specialist building, plant & equipment and support asset indices and costs that can be applied to these challenging situations.

Conclusions

While there is a role for property consultants, contractors and quantity surveyors in the management or development of a policyholder’s asset portfolio, this doesn’t always equate to the correct expertise to arrive at appropriate declared values for property damage insurance policies.

If the assumptions adopted by a valuer do not match to what is expected by the various stakeholders, or what is stated within the insurance policy, the insured can end up exposed to underinsurance, or they could pay excess premiums.

This issue is of particular concern when figures are arrived at through computer modelling or by indexing up historic costs.

When choosing an advisor, best practice is to review their insurance track record, the experience of the individual team members, their independence in providing the advice and their ability to apply the correct approach to the reinstatement cost assessment of the assets.

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