Alternate Valuation Considerations

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PROPER BUILDING VALUATION is a common concern for agents and their insureds. Proper valuation is important both when issuing the policy to determine the correct premium for the exposure, and at the time of the loss so there is enough coverage to restore the property to its pre-loss condition. Helping clients understand the benefits and drawbacks of alternate valuation methods is another value-added service of the professional insurance agent.

Replacement cost is popular, as it provides coverage to replace or repair the insured's damaged property with like kind and quality, or new for old. Actual Cash Value is used to provide replacement with deductions for such factors as depreciation, wear and tear and obsolescence.

Functional Replacement Cost provides coverage to replace the property with something that is functionally equivalent. Replacement with the same materials may be impossible or unnecessary. For example, a manufacturer or warehouse may be located in an old brick mill style building, or an office may be located in a Victorian style house with ornate woodwork and fixtures.

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By opting for functional replacement cost, the insured can replace the property using modern, less expensive construction methods and materials. The coverage limit can then be decreased, often as much as 50%. In the case of a partial loss, the repairs can be made in the same style architecturally, but with less expensive methods. For example, walls that were previously made of plaster could be made of drywall.

Agreed Value means the insured and the insurance company agree on the value of the building or contents at the time the policy is written. This is common with fine arts, or jewelry, where valuation after the loss may be subjective. However, some insureds also opt for this valuation if they do not plan to rebuild if there is a loss.

With agreed value, the coinsurance clause is suspended until a specified date, usually the policy expiration date. A statement of values is often required to be completed and signed by the insured. If a new statement of values is not completed prior to expiration, the coinsurance clause is reinstated. Although most losses are partial losses and not total losses, if the property is not adequately insured, the coinsurance clause will affect the recovery amount for the damage.

Another factor to consider is whether there is a mortgage on the property. The mortgage may include a clause requiring that the property be insured to replacement cost. The key to remember is that, no matter what form of valuation clause is used, if the coverage limit is not adequate at the time of loss, the insured will not be happy.

After the loss is not the time for your client to find out they did not purchase adequate coverage. Helping clients choose the proper valuation options is another sign of the true insurance professional.

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