



Replacement Cost vs Market Value

A confusing concept for most insureds. Simply put replacement cost is the amount approximating the cost to reconstruct the building in the event of a loss. Market value is the price of selling the property in the marketplace. After many years of increases, the market value of property is now remaining flat or decreasing in many areas, while the replacement value continues to increase. Current data shows the average replacement value of properties across the U.S. is close to 13% higher than average market value.



Business Interruption - The Hidden Factor

When thinking about insuring a property to value, most think mainly of the physical property – (building and contents), but most do not think about the value of business interruption. This must be factored in to fully protect the insured and their business. Underwriters are asking questions to determine the correct value for an interruption of business which may increase the value of the risk. Interruption, specifically after catastrophes, continue to be extended due to supply chain issues for construction materials and shortages of skilled laborers.



Labor Inflation & Construction Materials

Current inflation rates have been at 8% or more (2% to 4% historically) and construction materials have seen even higher increases, which increases the cost to rebuild and the replacement cost value to rise. The supply chain has changed due to halted production around the Covid-19 pandemic and the increasing need for building supplies in growing economies outside the U.S. The demand is there, but the supply is not, which has continued to increase costs. The lack of skilled workers in the construction industry has also led to an increasing trend in construction as the skilled laborers that are available are in high demand and can demand high wages.



Frequency and Severity of Large Catastrophes

Across the globe the frequency and severity of catastrophes has continued to increase. Whether it be typhoons in Asia, earthquakes in Europe, or wildfires in California, these large-scale catastrophes require enormous amounts of materials and labor resources to recover from, which puts a continued strain on the construction world and continues to increase prices more than average market value.

If a building is underinsured, there could be financial consequences to the insured. Accurate insurance to value is an important part of the review process to ensure your customer is properly protected.