

Is Your Property Insured to its Current Value?

Over the past few years, building construction costs have risen dramatically, not only for the materials but also for labor. Many times, you don't find out your buildings are underinsured until you have a claim. The words "coinsurance penalty" should send shivers down your spine. Here is an example of how serious the situation is:

Let's say you have a 30-year old building that you think is worth \$500,000, with \$50,000 worth of contents. Your insurance company wants you to insure it to 80% of its value (\$400,000 for the building and \$40,000 for the contents), with a \$2,500 deductible. A fire totally destroys the building. A claims adjuster determines that the building was actually worth \$1 million and the contents were worth \$100,000. Because the building's insured value turned out to be half of its true value, a 50% coinsurance penalty is tacked onto the amount you would have received.

- For the building: $(\$500,000 \times 50\%) - \$2,500$ (deductible) = \$247,500
- For the contents: $(\$50,000 \times 50\%) - \$2,500$ (deductible) = \$22,500.

So instead of getting a check for \$550,000, you're getting one for \$270,000. The expected replacement cost of your building is \$1.1 million.

In addition, the underwriter at the insurance company is likely to order an appraisal of all your buildings to bring them up to current values to prevent a coinsurance penalty from being implemented again. That means your property insurance rates are likely to go up.

You can take these steps to limit the possibility of this financial disaster from occurring:

- Get a current appraisal for your buildings and their contents. You can use a commercial public appraisal firm (which will probably cost a few hundred dollars) to get an accurate appraisal, or you can have your insurance agent gather enough details to send to Markel where a computer program can generate a ballpark value. Keep in mind that **even if Markel generates the ballpark figure, it is ultimately your responsibility to ensure that you have enough insurance coverage.**
- Pay particular attention to how the contents of your buildings may have changed. Have you added a new movie studio to the gymnasium? Have thousands of dollars in costumes been moved from one building to another? Is your sports or travel camp equipment insured?
- Once you have an appraisal, plan to increase the property amounts by around 5% annually to cover increased costs of construction and inflation.
- Identify your critical buildings, those that your organization simply can't afford to lose and maintain business operations, such as your dining hall. With the understanding that your organization simply may not be able to afford ideal levels of insurance for all aspects of your property, talk with your insurance agent about the pros and cons of insuring less critical buildings.

It's hard to make informed decisions about insurance without knowing all the facts. Take the time to find out how much your property is currently worth and talk with your insurance agent about your best options. Don't let an environmental disaster or fire become a financial disaster as well.

If you have a safety or risk management question or a suggestion for a topic, please contact Markel's Risk Management Department at safety1st@markelcorp.com.