

# Aon Valuation Services

## Insurance Valuations - Getting It Right

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*Peter Erceg, Aon Valuation Services Manager*

[peter.erceg@aon.com](mailto:peter.erceg@aon.com)

*027 403 9971*



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# Agenda

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- Why do I need an insurance valuation?
- Valuation Process
- Loss Modelling
- Construction Costs Update
- Lessons Learned
- Summary
- Q & A


# Why do I need an Insurance Valuation?

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# Why do I need an Insurance Valuation?

- Remove risk of under insurance
- Provides faster settlement for claims

<b>Building:</b>	Residential Townhouse	<b>Levels:</b>	Ground, first and upper floors				
<b>Floors:</b>	Concrete to ground & first floors; particleboard to upper floor	<b>Coverings:</b>	Carpet, tiles				
<b>Walls:</b>	Concrete block with a plaster finish to ground floor, Hardies Monotek sheet cladding to first & upper floors	<b>Windows:</b>	Aluminium				
<b>Roof:</b>	Asphalt shingles over plywood substrate	<b>Ceilings:</b>	Plasterboard				
<b>Attachments:</b>	First floor deck with Hardies Monotek balustrading; upper floor deck with aluminium framed glazed balustrading. Both decks have a waterproof membrane surface.						
<b>HVAC:</b>	Not applicable						
<b>Plumbing:</b>	Reticulation, sanitary fixtures						
<b>Fire:</b>	Fire separation wall between adjoining townhouses						
<b>Electrical:</b>	Reticulation, incandescent lighting						
<b>Age:</b>	Built 1999						
<b>Fitout:</b>	Ground floor - entry foyer, bedroom, bathroom and double internal garage. First floor - open plan lounge/dining with direct access to the deck; kitchen, bedroom and bathroom. Upper floor - bedroom with direct access to the deck area; bathroom. A domestic platform lift operates between the three levels in addition to the stairs.						
<b>Siteworks:</b>	Brick paving and part boundary fencing.						
<b>Gross Floor Area (m<sup>2</sup>):</b>	199 plus decks (16)						
							
<b>Reinstatement Value</b>	<b>Extra Cost</b>	<b>Removal of Debris</b>	<b>Policy Period</b>	<b>Planning &amp; Approvals</b>		<b>Rebuilding</b>	
613,000	0	28,000	33,000	<b>Weeks</b>	<b>Amount</b>	<b>Weeks</b>	<b>Amount</b>
				37	23,000	340	17,000
<b>ESTIMATED PROPERTY DAMAGE LIMIT OF LIABILITY</b>						<b>\$714,000</b>	



# Valuation Process

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- Clarify Purpose and Scope of Works
- Component Level
- Review and Develop Asset Register
- Develop Replacement Cost
- Optimisation
- Asset Lives
- Inflation, Demolition

# Clarify Purpose and Scope of Works

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## ▪ **Financial Reporting**

- “The estimate amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”
- Non specialised
  - Market evidence available, e.g. office building
- Specialised
  - Seldom trades on the open market, value using a Depreciated Replacement Cost
  - DRC = Replacement cost less depreciation

## ▪ **Insurance Valuation**

- Estimated Property Damage Limit of Liability
- Total Sum Insured = Replacement Cost + Inflationary Allowance + Demolition
- Also calculated Indemnity value for Fire Service Levy

## ▪ **Can I use my financial reporting replacement cost for my insurance valuation?**

## Component Level

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- Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

Class	Asset Type	Components
Buildings	Operational	Structure
		External Cladding
		Fitout
		Services
		Site Improvements
Infrastructure	Roading	Surface
		Sub base

# Review and Develop Asset Register

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- Hand on hard do you think your Asset Register is 100% up-to-date?
- What to include?

Quantity	Material	Size	Date New	Condition
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- What other known factors could impact value

Location	Soil	Unusual Features	Construction Method/Supplier	Special Restoration
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# Develop Replacement Cost

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- Guiding Principle
  - Assets are normalised in order to estimate standard replacement cost for asset components based on a **Modern Equivalent Asset**
- **Assumptions**
  - **Contractor rates not in-house labour**
  - **Latest available proven technology**
  - **Cost in current environment**
- Borrowing Costs?
- Resource Consent?

# Optimisation

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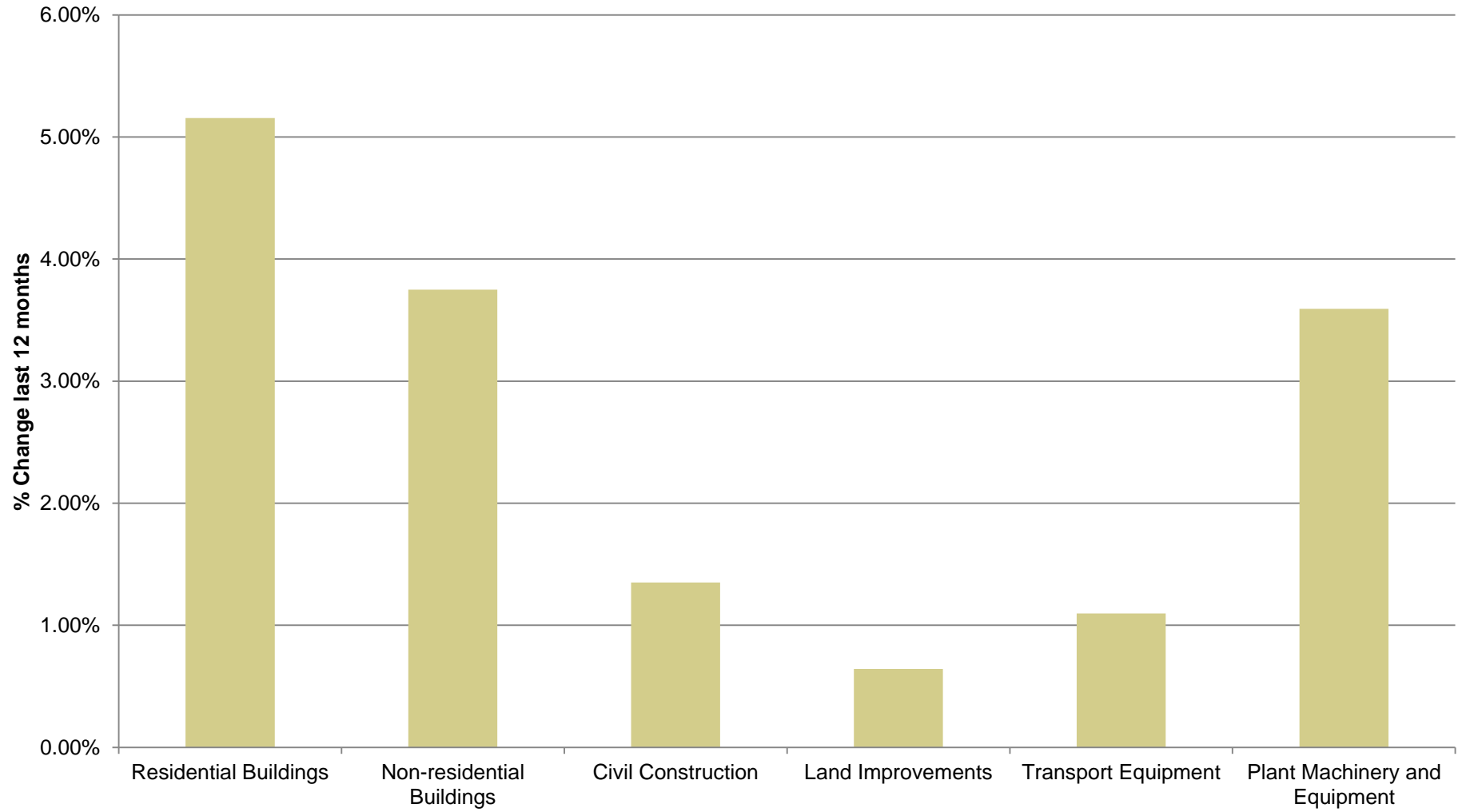
- Do you have more assets than you need?
- Are you assets over designed?
- Do you have redundant assets?

- Physical vs Useful Life

$$\text{Probable Loss} = \text{Total Sum Insured} + \text{Loss Modelling}$$

# Construction Costs Update

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# Construction Costs Update

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- Timber windows increased by 5.4%
- Zincolume Finish to a Steel Roller Door increased by 13%
- **Timber roof skylights decreased by 13%**
- Hose reels have increased by 4.9%
- Rheem Water heaters have increased by up to 18%
- Sanitary fittings have increased by up to 10%
- Drinking fountains have increased on average by 6%
- Galvanized Steel Pipes has increased by up to 7%

# Lessons Learned

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- Asset registers tend to be out of date
- Search ownership if unsure of asset list
- Involve key stakeholders early e.g. Audit NZ, Property Managers, Engineering Managers

# Summary

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- Life comes at you fast
- Start early
- Be up-to-date



# Thank you

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