



Covering Your Municipal Assets

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Q: What is a Property Worth? A: Depends on Your Point of View

- ▶ Your home's assessed value?
 - ▶ Want it LOWER
- ▶ Appraised value for a mortgage? Resale value?
 - ▶ Want it HIGHER
- ▶ Insured value?
 - ▶ Need it to be CORRECT

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Property Insurance

- ▶ Property insurance covers various types of property assets and values them in different ways.
 - ▶ Commercial Property
 - ▶ Auto Physical Damage
 - ▶ Inland Marine (Floater)
- ▶ What types of valuations are used on these different policies

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Replacement Cost (RC) Coverage

- ▶ This type of insurance values property based on the cost to replace or repair it at the current market prices. It doesn't consider depreciation. For instance, if a building is insured for replacement cost coverage, the insurance will pay for the cost of rebuilding the structure to its original state at current construction costs.
- ▶ Focuses on restoring the property to its original condition after a loss.
- ▶ Takes into account the current market prices of labor and materials to determine the cost of rebuilding or repairing the property.
- ▶ Doesn't consider changes in building technology or methods; the goal is to replicate the original structure as closely as possible.

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Actual Cash Value (ACV) Coverage

- ▶ ACV takes into account depreciation when determining the value of the insured property. The insurance pays out the current value of the property, considering its age, wear and tear, and depreciation. This type of coverage may result in a lower payout compared to replacement cost coverage.
- ▶ Pays out the current value of the property, factoring in age, wear and tear, and depreciation.

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Agreed Value Coverage

- ▶ This type of insurance involves both the insurer and insured agreeing on the property's value before the policy is issued. In the event of a covered loss, the insurer pays the agreed-upon value, regardless of the current market value or depreciation.
- ▶ Provides stability and predictability as the agreed-upon value remains constant throughout the policy period.
- ▶ The payout in case of a covered loss is the agreed-upon value, irrespective of the actual market value, replacement cost, or depreciation.

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Functional Replacement Cost Coverage

- ▶ This type of coverage allows for replacing damaged property with less expensive or more modern materials or methods, without sacrificing functionality.
 - Allows for replacing damaged property with alternatives that might be more cost-effective or efficient.
 - Considers the expense of restoring functionality rather than duplicating the exact original structure.
 - May involve the use of modern materials or technologies that could provide similar or improved functionality compared to the original.

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Property Valuations

- ▶ The valuation method used can significantly impact the premium cost and the payout in the event of a claim. Insurers may conduct evaluations and assessments of the property's value based on several factors such as:
 - ▶ Age
 - ▶ Condition
 - ▶ Location,
 - ▶ Replacement/repair costs.
- ▶ It's important for public entities to carefully consider their insurance needs and select the appropriate valuation method to ensure adequate coverage for their property assets. Consulting with brokers that have experience with public entities and will work with you to arrive at appropriate values is very important.

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Best Ways to Determine Building Property Values

- ▶ **Professional Appraisal:**
 - ▶ Hire a professional appraiser to conduct a comprehensive assessment of your property. Appraisers use industry standards and their expertise to determine the property's value accurately.
- ▶ **Consult with Local Contractors:**
 - ▶ Consult with local contractors or builders to get estimates on construction costs in your area. Local variations in labor and material costs can impact replacement costs.
- ▶ **Use Online Valuation Tools:**
 - ▶ Online tools and calculators can provide initial estimates of replacement costs based on your property's characteristics. While these tools can be helpful, they may not capture all nuances, so professional advice is still recommended.

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How Are Current Inflation Trends Impacting Property Insurance?



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- ▶ Higher property premiums: As construction costs rise, municipalities can expect to pay higher premiums for their insurance.
- ▶ Coverage gaps: If a municipality's insurance policy is not updated to reflect the current replacement cost of their property, they may be underinsured in the event of a loss.
- ▶ Difficulty getting repairs or replacements: If a municipality's building is damaged or destroyed, they may have difficulty getting repairs or replacements due to the high cost and shortage of materials and labor.

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What Is A Blanket Limit?

- ▶ In property insurance, a blanket limit refers to a single coverage limit that applies to multiple properties, coverages, or categories of property within a policy. A blanket limit consolidates coverage for various assets under one specified amount.

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Blanket Limit Claim Scenario

- ▶ XYZ Municipality has several public buildings, parks, public works and recreational facilities spread across the city. The municipality has opted for a blanket insurance limit approach to cover its various properties under a single limit regardless of the value associated with each building.
- Blanket Property Coverage:
 - A blanket limit of \$50 million is set to cover all public buildings, parks, public works and recreational facilities owned by the municipality. This means that damages to any of the properties can be covered under this single limit.

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Blanket Claim Scenario (cont'd.)

- ▶ There are 4 locations listed on the policy at a value of \$500,000 each
- ▶ There is a \$2M Blanket Limit
- ▶ A claim arises that totally damages location #1.
- ▶ The cost to replace that building exceeds the \$500,000 value listed for that location
- ▶ The municipality will have the full blanket limit of \$2M to replace the building to its original state

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Property Assets Typically Excluded In A Property Policy

- Money, security, accounts, bills
- Land, piers, docks, and wharves
- Vehicles, aircraft, and watercraft (with certain exceptions)
- Animals other than stock
- Cost of excavation, grading, or backfilling
- Building foundations
- Walkways, roads, and other paved surfaces
- Electronic data
- Cost of restoring information on valuable records

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Common Enhanced Coverages In A Property Policy

- ▶ Most insurance companies provide enhanced coverages and can be referred to by a specific name/label, for instance HEALTH has a standard endorsement
- ▶ They vary by the company
- ▶ They typically have a sublimit (an assigned limit for certain coverages, typically lower than the policy limit)
- ▶ Intended for incidental/small exposures
- ▶ Enhanced coverage applies to scheduled locations
- ▶ Common types of enhanced coverages are
 - ▶ Valuable Papers
 - ▶ Accounts Receivable
 - ▶ Money and Securities
 - ▶ Fine Arts
 - ▶ Ordinance and Law

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Auto Physical Damage Coverage

- ▶ Most Auto Policies Base the premium on the Value off the "Cost New"
 - ▶ Original Purchase Price of the vehicle when it was brand new from the manufacturer or dealer
 - ▶ Includes Total Price paid and includes all optional extras
- ▶ Valuations used on Auto Physical Damage
 - ▶ Most common is ACV
 - ▶ Certain types of vehicles may be RC or Agreed Value

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Inland Marine Coverage

- ▶ Inland Marine Coverage - What property is covered?
 - ▶ Physical damage to certain types of vehicles (Dump trucks, fire trucks, etc.)
 - ▶ Contractor's Equipment
 - ▶ Computers/EQP
 - ▶ Fine Arts
 - ▶ Pro
- ▶ Valuations Used on Inland Marine
 - ▶ ACV
 - ▶ Agreed Value
 - ▶ Replacement Cost

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Other Policies for Certain Property Exposures (cont'd.)

- ▶ Crime and Fidelity
 - ▶ Employee Theft
 - ▶ Money & Securities
 - ▶ Wire Transfer
 - ▶ Counterfeit
 - ▶ Computer Fraud
 - ▶ A crime and fidelity policy issued to a municipality should include faithful performance coverage.
- ▶ Equipment Breakdown Coverage
 - ▶ Boilers
 - ▶ Equipment and Motors

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The Moral Of The Story aka "Takeaways"

- ▶ Things to consider when purchasing property insurance and what to make sure of regarding coverage, valuation, etc.
- ▶ Balancing value vs. premium
- ▶ Deductibles will apply
- ▶ Working with your broker and your insurance company - you, ultimately, set the value
- ▶ The value-added of an insurance company that provides appraisals

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THANK YOU!

QUESTIONS?

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