Property Valuation US Market Update | Marsh

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Why now may be the right time to revisit property values

During less challenging insurance market cycles, property valuation updates can easily slip down the priority list. But accurate valuations can help organizations make better risk management decisions, confirm property limit needs, enhance underwriting credibility, and reduce the risk of costly surprises following a loss.

Further, comprehensive property valuations can reveal whether your property data is outdated, incomplete, or misaligned — issues that can impact your insurance program performance over time.

A strategic approach to strengthening data quality

Despite the benefits, many organizations defer regular valuation work during less challenging insurance market cycles, especially when insurers are not pressing for updated valuation data.

This can be a missed opportunity.

More stable insurance market conditions can provide companies with additional time and flexibility to carefully assess values, improve data quality, secure more favorable pricing on any value increases, and address issues before they are flagged during a tougher underwriting environment or following a major loss event.

Instead of viewing valuation exercises as solely a determinant of whether values are too high or too low, senior leaders should consider how the right data provides a reliable picture of insured assets that supports risk management and transfer decisions now and in the future.

How do valuation exercises help?

At a basic level, property valuation helps determine the insurable replacement cost of an organization's physical assets, including buildings and their contents. While this might sound straightforward, calculating the building or purchasing cost of all assets through an insurance lens is, in reality, a much more complicated process.

Book value, acquisition cost, original construction cost, tax basis, and market value do not typically reflect the cost of rebuilding or replacing an asset after a catastrophic loss and are therefore not always usable proxies for insurance replacement cost.

Unless valuation exercises are carried out at a regular cadence, organizations may base decisions on values that no longer reflect the asset's current value. In some cases, reported values may not account for changes in construction costs, inflation, or asset changes at the physical locations.

In others, reported values may overstate insurance replacement cost for a number of reasons. First, rebuilds can avoid the construction inefficiencies, design costs, and one-time expenses required

during the initial build. Second, cost trends for some assets, like technology components, are often deflationary. From an insurance-specific perspective, an organization may be overpaying or buying coverage that is not needed or underinsuring its assets.

Why now is a good time for a property valuation exercise

Many organizations defer property valuations during a favorable insurance market cycle because there is no pressure to revisit property valuations. But that is exactly the reason why now is a good time for this exercise.

When capacity is available and underwriter scrutiny is lighter, companies have more room to assess and improve their data without the same degree of time pressure or market resistance that often comes with more difficult renewal conditions. This will make it easier to address valuation issues proactively rather than being forced to do so and also may potentially lead to better insurance pricing on any value changes.

But this window may not last forever. When market conditions change, underwriters may be more likely to question reported values, examine the quality of supporting information, and introduce restrictive clauses or endorsements if they are not confident in the data presented. Renewals could turn into a rushed and expensive effort to update existing numbers and right-size the program – potentially at a higher cost.

Acting now allows organizations to strengthen the quality of the information underpinning their insurance program before data becomes a negotiating point.

Benefits extend beyond avoiding underinsurance

Property valuations are often framed primarily as an exercise to minimize the risk of underinsurance. But they can also identify where organizations may be carrying more insurance than necessary.

This can happen for several reasons. An organization, for example, may be insuring tenant improvements even though they are only responsible for the shell of the building. Another may be relying on schedules that double-count the value of certain assets. Or a company may be carrying values based on legacy assumptions that no longer reflect the asset's current replacement profile.

For companies with large property portfolios, these issues can materially affect insurance costs.

A long-term investment in preparedness

Property valuations may not feel like an urgent need. But in the long term, they can play an important role in helping companies build more credible and resilient insurance programs that align with their properties' real values.

Marsh's team of valuation specialists works with organizations to determine whether existing property valuations reflect current realities. We provide advisory support and high-level benchmarking as well as full valuation exercises, depending on an organization's specific needs. We can also help organizations take a multi-year approach, spreading the work over a specified period to manage costs while still maintaining credible values across reporting periods. Our team also provides desktop updates that can offer an efficient way to keep values current during annual reports.

Contact us

For more information about our property valuation services, complete the form below and a Marsh representative will contact you directly.