



Why are insurance valuations on homes increasing?

Most comprehensive homeowners' policies guarantee the replacement of your home and contents in the event of a loss. In order to provide that guarantee, the value of your home must be determined at the time the policy is purchased, and the policy must adequately cover your home to that value.

Insurance brokers perform that valuation for insurance purposes. It's one of the many services a broker provides at no extra charge to you. An insurance valuation is different from an appraised value or market value because it is based on what it would cost to replace your home, and it doesn't include the value of the land. Though insurance brokers work with their customers to determine a valuation for insurance purposes, a broker is not an appraiser. In some cases the advice and services of an appraiser should be sought.

Prior to January 2003, most brokers used a valuation method, based on per-square-foot assumptions for various grades of homes, which had been standard practice for many years. This system was subjective in many ways, and provided customers and brokers some leeway in settling on a valuation figure for the home. Like so many other areas of our lives, new technology has changed the process brokers use for home valuation. New construction

valuators have evolved. They are more detailed and more accurate in determining the home construction value based on the quality of materials and unique characteristics and location of the home. Much of the subjectivity has been removed.

“Part of our job is to determine the estimated Replacement Cost of your home or property to ensure adequate coverage.”

During 2003, it became apparent that the valuations obtained from these new valuation tools were higher than those obtained with the previous system. Some homeowners questioned these higher valuations, and the insurance industry was re-examining the valuation issue when the devastating forest fires of the summer of 2003 struck in British Columbia. The actual replacement costs of these homes have provided definitive proof for the need of a new valuation system.

To bring insured values more into line with replacement costs, many insurance companies are requiring brokers to complete new valuations on renewal of homeowners' policies.

Q&A

Q: How can I assist my broker in determining a realistic insurance valuation for my home?

A: Bring as much information as you can about your home: its size, construction materials and special features it may have.

Q: My home is brand new so I know what it cost to build. The insurance valuation provided by my broker was higher. Why is that?

A: Reconstruction costs are higher than original construction costs because damaged buildings may need to be demolished and the debris removed. These and other costs are included in the building coverage.

Q: Have my homeowners' insurance rates gone up to pay for the forest fire losses of the summer of 2003?

A: No. While those losses were substantial (\$200 million), recovery of those losses was not a major factor in determining insurance rates for 2004.

Q: How do the new insurance valuation methods affect the coverage of my furniture and other belongings?

A: When the insurance valuation on your home is recalculated, it may increase the building insurance limit. However, your policy has other limits you should consider with the assistance of your insurance broker. Items such as fine art, antiques, collections, recreation equipment and other belongings may exceed specific limits on the policy and should be scheduled separately.

Q: I plan to renovate this year. How will this affect my insurance?

A: Advise your insurance broker of any significant changes to your home or contents, or who is living in the home. Guaranteed replacement cost terms vary from policy to policy. If you have any questions, check with your broker.

