Property insurance update

By Rob Roscoe

WCIA has an all risk property insurance program that provides the membership with replacement cost coverage for your scheduled structures, contents, mobile equipment, and property in the open, when damaged by a non-excluded peril. The program is currently insuring over $8 billion in total values. WCIA funds the layer between the individual member’s deductible and the first $750,000 of a loss and any additional amounts are funded by property insurance. Each year WCIA markets the property program to the insurance industry to obtain coverage.

Costs for WCIA’s property insurance are driven by many factors including the members’ loss experience, the global insurance market, and a carrier’s individual financial capacity to absorb losses. The insurance industry pricing is cyclical and WCIA has benefitted from zero to moderate rate increases in recent years. Unfortunately, the zero to single digit rate increase cycle has ended. To put this in perspective WCIA experienced an overall 10% rate increase from 2014 to 2018 with rates increasing an average 2% annually. In 2019, WCIA’s property insurance rate increased by 13% and in 2020 WCIA’s rate more than tripled with a 43% increase.

Rate increases are bad, but equally troubling was that during WCIA’s recent renewal, multiple carriers requested WCIA change the current “replacement cost” policy into a “stated value” policy. Replacement cost coverage provides reimbursement for your realized costs in rebuilding/repairing a damaged structure (using like materials and similar footprint) whereas a stated value policy will only pay you up to a maximum amount of whatever value is stated on the property schedule less your deductible. The request arose over concerns with the memberships’ property schedules not reflecting accurate replacement cost values. This argument became increasingly difficult to defend when WCIA experienced two recent losses that appear to demonstrate a significant undervaluation of the property based upon the replacement cost derived from the claim adjuster’s perspective. This is a problem to carriers as they underwrite and base their rates on the reported values and if values are being under reported they are not collecting enough premiums to cover their losses. It is understandable that when insuring over $8 billion dollars’ worth of property that not every structure is going to be accurately valued. The valuation process itself is an inexact process as costs fluctuate month to month and from region to region but everyone must exercise their due diligence in reviewing their schedule to reflect accurate replacement costs or WCIA’s program will remain in jeopardy.

During the renewal process WCIA pushed back on the carriers that a change to stated value coverage was unacceptable as it eroded the coverage afforded to the membership. As a result of this, several long-term carriers refused to renew with WCIA leaving gaps in coverage that our broker worked hard at filling.
WCIA needs the memberships’ help in keeping costs down and the current replacement coverage in place. WCIA staff has begun scheduling the next round of appraisals for all locations listed above $225,000 in value. These appraisals should capture the bulk of any remaining undervalued locations, but we need all members to review their schedule at least on an annual basis for completeness. When adding properties, remember it is not the cost to acquire the building that is scheduled but rather how much it will cost to rebuild this same structure using like materials, equipment, and furniture.

Please don’t forget to include your autos in the review process especially when you’ve elected replacement cost coverage. For example, if you have a 2008 Police Ford Crown Victoria checked for replacement cost coverage but only have the vehicle listed on the schedule for $35,000, that is not going to be the cost to replace that vehicle. Claim history has reflected that at a minimum a fully equipped new Ford Interceptor (the Crown Vic replacement) will be at least $50,000 and can go as high as $75-$80K depending on the model. If you have not selected replacement cost, then the vehicles should be listed for their actual cash value and can be depreciated accordingly.

The 2020 property renewal was not all bad news as WCIA was able to increase the overall property limits from $300,000,000 to $400,000,000 per occurrence and was able to add multiple new members to the program which will make the program attractive to the property markets. While WCIA’s property carrier rates have tripled please remember that does not mean your property and auto rates will triple next year. One of WCIA’s primary goals and a benefit of being in a risk sharing pool is our ability to offer stable rates. Due to having a large $750,000 deductible we can absorb the bulk of those increases within our layer. While 2020 did see a modest 5% rate increase this is also the first rate increase in over four years.

If you have any questions regarding the appraisal process or valuing an item please call WCIA (206) 575-6046 and speak with either Tiffany Woods, WCIA’s Programs and Information Technology Coordinator, or your assigned Risk Management Representative for further assistance.