

WINDSTORM INSURANCE UPDATE

NEW TOOL MEANS PRICING ACCURACY, LESS RISK

IT'S HURRICANE SEASON again, and the forecasters have correctly predicted another stormy year. The National Oceanic and Atmospheric Administration estimates 14 to 18 named storms and 7 to 10 hurricanes, including 3 to 6 major hurricanes.

Communities along the Gulf Coast are clearly at risk each year, and having windstorm insurance is critical. As you consider your windstorm insurance needs, we want to let you know about a recent change in how the Texas Windstorm Insurance Association (TWIA) calculates replacement values. The change is designed to provide more accuracy, creating less uncertainty and fewer surprises for everyone.

First, a little history. According to Randy Wipf, TWIA's vice president of underwriting, a recent TWIA study found that a number of TWIA policies were not being updated to keep pace with their corresponding companion policies (i.e., the fire policy). The result: Commercial buildings were often underinsured for windstorm damage, and property owners were faced with unexpectedly high out-of-pocket costs in the aftermath of storms. To remedy the problem, says Wipf, "we needed to offer tools for insurance agents to use to update property values."

The result: A new replacement loss calculator for commercial structures. Called the Marshall & Swift/Boeckh (MSB) Replacement Cost Calculator, the software tool has a track record of predicting reconstruction costs following loss within 1 and 4 percent of the actual construction costs. As a result, TWIA now requires an MSB calculation with every application for insurance on a commercial building structure. TWIA's decision to use the MSB calculator brings the association's risk management practices in line with those of insurers in the

standard marketplace. Almost every insurance company uses a risk management calculator to better align underwriting with claims. In addition, more accurate loss replacement numbers mean that you, as a customer, will have greater assurance that you are purchasing adequate coverage—and are not surprised with co-insurance penalties when disaster strikes.

Using the MSB

Everything starts with your ZIP code and some basic information about your building. Your insurance agent will need to know:

- The building's age
- The occupancy code
- The number of stories (height)
- How high each story is
- The gross floor area
- The construction type (e.g., brick veneer, frame, or stucco)

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The MSB calculator uses this data to make some assumptions about the structure—program defaults that your agent can keep or change as needed. The final result is a replacement cost estimate that you can use to purchase an appropriate amount of insurance. The calculation must be made before insurance is first purchased and subsequently updated every five years.

It's important to note that the replacement loss calculator is a guide, not an absolute number. TWIA's rules provide flexibility that allow you to carry anywhere between 80 and 100 percent of the replacement cost. In addition, the association will accept reasonable

input from people who feel that the calculated number is not accurate. You just have to have solid backup to support your contention about the reconstruction costs to replace your property.

The amount of insurance purchased is tied to the concept of "insurance to value," the idea that you must purchase "sufficient insurance coverage so as to closely approximate the value of the property being insured." The TWIA policy bears this out in the co-insurance clause. Co-insurance is intended to ensure that those who opt not to insure the full value of their properties do not receive the same benefits as those who are fully insured.¹

At the time of loss, TWIA will rely on the loss replacement dollar figure it accepted, along with a current MSB calculation, to determine the correct replacement cost.

The bottom line, says TWIA's Wipf, is that "we want everyone to know their real construction costs and to make informed decisions at the outset." The Marshall & Swift/Boeckh (MSB) Replacement Cost Calculator enables better decision making, which provides greater financial certainty and less risk—and, hopefully, business peace of mind. ♦

Public Domain thanks Randy Wipf, Vice President of Underwriting/Agent Services, Texas Windstorm Insurance Association, for his assistance: 5700 S. Mopac Expressway, Building E, Suite 530, Austin, TX 78749; tel: 512-899-4903; e-mail: randy@twia.org.

¹Please go to www.PublicEntities.com for a quick discussion on co-insurance. ♦

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