BHSI

BERKSHIRE HATHAWAY SPECIALTY INSURANCE

Insurable Value Appraisals – Property (The BHSI View)

There are various ways to approach insurable value appraisals. Here is BHSI's view on such appraisals:

Value Methodology

There are three generally accepted valuation approaches utilized in the appraisal of real estate and machinery and equipment assets:

1. Cost Approach – Replacement Cost New[1] and Reproduction Cost New[2]
2. Sales Comparison/Market Approach – Recent comparable sales in the market
3. Income Approach – Value of the property based on the income it generates

For insurance purposes, typical policy language calls for Property to be valued at Replacement Cost New and, in some cases, Actual Cash Value (Replacement Cost minus depreciation). An appraiser will utilize the Cost and/or Market approaches to derive insurable value.

Table of Valuation Approach by Property Type

Property Type	Replacement Cost New	Reproduction Cost New	Sales Comparison
Real Estate	Typical	Less Frequent (trended value of original construction cost if recent build)	N/A
Machinery & Equipment	Typical	Typical (trended value of original equipment cost)	Typical

Engaging an Appraiser for Insurable Property Value – Things to Consider

While owners or managers typically have a very good understanding of their assets, they may lack the expertise to provide a best estimate of insurable value that is well supported and documented. In such cases, engaging a third-party appraiser offers that capability. An appraiser is an impartial and unbiased expert in estimating value, however it is ultimately the responsibility of the Insured, who is engaging the appraiser, to own the value estimate for their asset.

The following insights are offered to assist in selecting an appraiser:

Category	Best Practice or Questions to Ask
Type of Firm	Accredited Appraisal Firm, offering Insurance Appraisal Services, who have expertise with the Subject Property Type(s) in scope
Valuation Methodology	Identify type of insurable value (e.g. Replacement Cost New, Actual Cash Value or Historic Reconstruction, etc.)

1 **Replacement Cost New:**
Real Estate: The anticipated cost required to replace the entire structure of like kind and quality at current prices using current construction methods and materials, as of a specific date.
Machinery and Equipment: The current cost of a similar new property having the nearest equivalent utility as the property being appraised, as of a specific date.

2 **Reproduction Cost New**: The cost of reproducing a new replica of a property on the basis of current prices with the same or closely similar materials, as of a specific date.

Category	Best Practice or Questions to Ask
How is the Value Estimate Derived? ("Approach to Value")	Appraisers will utilize various resources and tools to derive value, including but not limited to: • Valuation vendor software • Valuation tools proprietary to appraisal firm • Use of cost of comparable construction projects or equipment • Cost Guides/Blue Books, Market Data, etc.
What Information do I need to provide the Appraiser?	Inquire as to what information needs to be provided on the subject asset(s) to achieve the most accurate value estimate (e.g. historic cost, building area, construction type/characteristics, fixed asset list(s), etc.)
What type of Appraisal Report should I get?	There are different types of appraisal reports in terms of content provided: • **Narrative Report** - detailed and comprehensive document that provides an in-depth analysis that explains the appraiser's methodology, reasoning and supporting data to determine the valuation of a property. • **Summary Report** - summarizes the data and analyses used in the assignment. • **Restricted Report** - simply states the conclusions of the appraisal. It is optimal to get a report that includes the supporting details to the value estimate, which would be included in a Narrative or Summary Report (so the reader has a full understanding of the value estimate), and a report that can be shared with other parties.
What are examples of things to look for in an appraisal report for insurance value?	• Scope of Work • The Purpose & Intended Use of the Appraisal (Policy Renewal/Terms, Loss Settlement) • A Definition of the Valuation Methodology • Identification of what subject information was provided to the appraiser • Description of the assets • Description of Approach to Value • Valuation sources relied upon • Detail behind the mathematical calculation of the value estimate • Summary of Conclusion

How Appraisals Can Assist Insurance Underwriters

Appraisals are most useful to insurance underwriting when they are:

- Current in date (it is preferable that the appraisal is recent =< 3 years old; in this instance values should be trended to the current date when using an appraisal that is =<3 years old).
- Well documented and supported - allows for the underwriter to review the appraisal and gain an understanding of the appraiser's methods and procedures as well as gain confidence in the provided value estimate.

Appraisals that don't provide supporting detail often require the insurance underwriter to perform additional value due diligence to come up with an independent value estimate, which may significantly differ from that provided by the Customer per the appraisal. Simply put, higher quality appraisals can lead to better underwriting.

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