



What effect do falling home prices have on the replacement cost of a home?

By Clint B. Strauch, CIC

Over the past several years, many insurance clients have seen the value of their homes decrease significantly. Intuitively, many clients believe that the amount of insurance should follow. In many cases, the market value of the home is directly related to the replacement cost of the home. It is

more important than ever to make sure your clients understand the purpose of their homeowners policy: to provide enough coverage to replace their home in the event of a total loss.

The first and most important step in any homeowners insurance transaction is determining the correct replacement value of the home to be insured. This should be a joint effort. Companies like MSB and ISO have developed detailed replacement cost estimating tools to help you and your

client determine a reasonable estimate of what it would cost to replace the home. These companies have teams of people who price the cost of materials and labor around the country. In order to stay current with building material and labor costs, these prices are updated on a regular basis.

Explaining why your client should keep or possibly increase his coverage when the value of his

(Continued on page 30)

WHAT EFFECT...

(continued from page 6)

home has decreased can be difficult. To complicate matters, most clients do not understand the difference between market value and the replacement value of a home. The market value is what someone is willing to pay you for the house you are selling. Some of the things that drive price are location, a house on the water or on the beach as an example, lot size or cost of the lot itself, good school districts, a well-established neighborhood or even proximity to a place of employment. All of these factors increase the price someone is willing to pay for a home. None of these factors is used in determining the replacement cost of the home.

When we calculate the replacement cost of a home, we are trying to determine what the material and labor will cost to replace the home with labor and materials of like kind and quality today. It is important to remember this is a cost snapshot in time. If the costs of commodities like lumber and petroleum-based products increase, the cost to replace the home will increase as well. Even an event like a natural disaster may leave shortages in certain areas and

will cause increases in costs. If the initial replacement cost estimate is not done correctly or if subsequent replacement cost estimates are not done regularly, your customer may not have enough coverage at the time of a loss.

Ultimately, as insurance professionals, we are responsible for getting the most accurate estimate of rebuilding costs before a loss. It is important to realize that replacement cost for a home could change dramatically, even during the policy period, because of a significant event like a hurricane. In addition, you have to help your insured understand the importance of insuring his home for the replacement cost and not the market value. If your insured is voicing concern now about the cost of replacement cost coverage, what will he say when a total loss occurs and he is underinsured. ■

The author

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PRIZE INDEMNITY COVERAGE

(continued from page 16)

work with to provide prize indemnity coverage has other insurance needs.

When you provide contest coverage you are essentially insuring fun. A promotion is a great way to meet and talk with new people, and it provides an interesting angle that you don't get with other types of coverage. Prize indemnity coverage is the only type of coverage in which the client wants to have a claim because a prize winner brings even more attention to their promotion and therefore their business. This allows you to have a unique relationship with the client as you can both cheer on the contest participants and hope for a claim. Your agency can also choose to become a sponsor of the event, giving you exposure not only to the industry offering the promotion but also to attendees of the event.

Promotional events are often run by small, local businesses or teams and provide a real sense of community for the participants. This is a great environment for small, local agents to gain exposure in their community among other small businesses and residents.

In addition to attracting new clients, you can court new business from existing clients who may not know the benefits of prize promotion contests. Almost any industry you provide coverage to in your specialty areas can benefit from prize indemnity insurance if you fill them in. Furthermore, clients will appreciate the ability to take care of all their insurance needs with you. Convenience is key these days.

So while adding prize indemnity to your company's coverage options does not mean you need to start a new business as Elia successfully did, it can open the door to industries you may not have done business with otherwise, provide more visibility for your agency in your local community and expand on the business you already have with existing clients. ■

The author

Dan Biga, director of sales & marketing for SUREBET, has 13-plus years of experience in the prize risk indemnity industry. He has been involved in covering various sports contests such as half-court basketball shots, football FG kicks, golf hole-in-one contests and has been responsible for the research and actuarial assumptions needed to maintain economic viability.

Advertisers Index

AgentInsider	19
AppRiver	15
Bankers Insurance Group	IFC
FAIA	IBC
The Florida State University College of Business	17
Florida Surplus Lines Service Office	5
Founders Professional, LLC	25
FUBA Workers' Comp	27
LAAIA/Latin American Association of Insurance Agencies	29
Modern Insurance Consultants	21
Patriot National Insurance Group	9
PIA of Florida	11
Regency Insurance Brokerage Services	OBC
Southern Oak Insurance Company	7