VALUATIONS FOR INSURANCE PURPOSES

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Guidance Papers

Objectives

The principal objective of a Guidance Paper (GP) and Resource Pack (if applicable) is to clarify professional and industry processes, best practices, and procedures and to discuss their use and implementation.

A GP is designed to be of assistance to Members and those who use Members' services. They serve as a guide and measure of acceptable professional practice and conduct of a Member.

The intention of a GP is to:

a) provide information on the characteristics of different types of assets that are relevant to the advice.

b) provide information on appropriate practices and their application.

c) provide information that assists Members in exercising the judgements they are required to make in specific situations.

d) convey elements of what is considered "competent professional practice" for Australian Property Institute (API) Members and "best practice" for Property Institute of New Zealand (PINZ) Members and New Zealand Institute of Valuers (NZIV) Members.

A GP is not intended to provide comprehensive training, instruction or prescriptive practices and procedures, or direct that a process, professional approach, or method should or should not be used in any specific instruction or situation.

Member Obligations

The Member is responsible for choosing the most appropriate approach in a matter based upon the task and instruction. It is a matter for each Member to decide the appropriate practice in any situation, and if they are unclear, seek professional advice from others, or contact the Institute(s). Members have the responsibility of deciding when it is appropriate to depart from the guidance and practices contained in a GP.

The Institute(s) do not warrant that anything contained in this, or any GP is the definitive or final statement on any issue. Members must perform their own work pursuant to their own professional expertise and experience and if required, seek additional advice which might include legal advice.

Court or Tribunal Reliance

A court or tribunal may consider the contents of any relevant GP or other document relating to a recommended professional practice published by Institute(s) in deciding whether the member acted to a standard required by law.

Currency of Publication

Case law and relevant legislation may change over time and whilst the Institutes(s) consider this GP current at the time of publication, Members and those who use Members' services should have regard to legislative changes and new rulings and if necessary, seek further advice prior to having regard to this GP.

Departure or Non-Compliance

Where a Member considers that a circumstance exists that warrants the departure from or non-compliance with any of this GP, the Member's report (or other advice) must include a statement that outlines:

a) the reasons for the departure or non-compliance with this GP; and

b) any impact the Members departure or non-compliance may have on the content of the report.

Members are advised to seek legal and/or other advice before departing from practice recommended in a GP.

Enquiries

If any Member considers any information or advice in this GP to not be accurate or up to date, or wish to raise any issue for consideration arising from the contents of this GP, please refer this to

API contact: standards@api.org.au

PINZ/NZIV contact: standards@property.org.nz

1.0 Introduction

1.1 Scope of this Guidance Paper

The objective of this GP is to provide information, commentary, advice, and recommendations to Members undertaking valuations of property, plant and equipment for insurance purposes.

As there are many types of assets and various levels of reporting, Members should decide which matters are applicable and the extent of detail required to ensure that the client is adequately and appropriately informed. This GP is not intended to outline methods of valuation of any asset but may comment on matters that should be addressed in reports in respect of certain property types or uses. Where appropriate, methods of valuation are covered in other GPs. It should be used in conjunction with other GPs and/or practice standards which are either over-arching or directly applicable to the issues involved.

Insurance valuation services are commonly required for one of the two following reasons:

a) To determine the amount of insurance required for the purpose of establishing insurance cover (i.e. to assist in assessing declared value or sums insured).

b) To determine the sum to be paid following loss or damage because of an insured peril.

While this GP focuses primarily on insurance valuations for the purposes of determining the sums insured, a broad understanding of loss assessment following loss or damage is helpful. Furthermore, some Members provide loss assessment services.

In New Zealand, insurance valuations are also required as a basis for calculation of the Fire Service levy.

In addition to the guidance and advice contained within this GP, the Member's role (subject to the scope of work agreed with the client) is to advise:

a) The reinstatement cost estimate and/or indemnity value estimate of the assets for insurance purposes at the date of valuation.

b) Whilst risk managers and/or insurers commonly address factors that can or could impact adversely on the assets in respect of insurance issues, such as, upgrade requirements, loss of existing use rights, issues associated with party walls, proximity to nearby high-risk activities, etc., Members can add value by attempting to quantify the adverse impact of risk or drawing the client's attention to the need for reassessment should these risks eventuate.

Valuations for insurance purposes are a specialised area of valuation practice requiring in-depth experience and knowledge of insurance and the particular property or item of plant and equipment. This TIP is directed at Members who have experience and training in this area and is not intended as a guide for practitioners with limited or no experience and training in this field.

Consistent with the API Code of Professional Conduct, the PINZ Rules of Conduct and the NZIV Code of Ethics, Members must operate within the limits of their qualifications and experience and must not accept instructions in a field of practice in which they possess insufficient knowledge and skill to provide competent services to the client. However, assignments may be undertaken in conjunction with a person having the required competence after agreement with the client.

The assessment of insurance valuations requires a broad range of professional skills and experience, such as.

a) an appreciation of costs for the construction or supply of assets of a similar size and utility.

b) an appreciation of demand and supply of building materials and labour, professional services and planning and building approval processes which determine the timeframe for rebuilding.

c) an appreciation of installation and commissioning costs and timeframes for plant and machinery insurance valuations.

d) planning scheme provisions which could affect whether a building can be rebuilt in its present form.

e) heritage issues.

f) general insurance policy terms (including difference between reinstatement and indemnity, inclusions and exclusions, co-insurance, and averaging provisions).

g) inflation on building costs.

h) market rental values (for loss of rent or allowance for alternative accommodation).

i) the size and extent of all improvements including building structures and ancillary improvements.

1.2 International Valuation Standards

International Valuation Standards (IVS) published by the International Valuation Standards Council (IVSC) are adopted by the Institute(s).

It is the Valuers responsibility to comply with the IVS applicable at the date of valuation, keep informed of any changes, and apply them appropriately and consistently when providing valuations.

This Guidance Paper is also intended to be consistent with the concepts and definitions contained in the IVS, however, there may be departures from the IVS to reflect Australian and New Zealand law and practice. This Guidance Paper refers to and uses IVSC definitions to promote consistency.

2.0 Definitions

The definitions contained below have been included for the interpretation and understanding of certain stated terms used within this GP. Where a defined term is included in this GP it is identified as a capitalised term.

Declared Value and Sum Insured	Declared value and sum insured are terms used to describe the sum of all property insured at each situation declared by the insured and calculated in accordance with the basis of settlement including foreseeable expenses such as fees associated with planning, architects, surveyors, consulting engineers, legal advisors, etc. In larger organisations, there may be a team of professionals managing the development, and individuals maybe taking on certain roles and responsibilities and may have different disciplinary areas that are integrated to contribute to the broader process of development management.
Indemnity Value	The cost necessary to replace, repair and or rebuild the asset insured to a condition and extent substantially equal to but not better or more extensive than its condition and extent at the time that the damage occurred, taking into consideration the age, condition and remaining useful life of the asset.
Insured	The insured is a person or entity whose interests are protected by the insurance policy.
Institute(s)	All references to Institute(s) mean, as the context requires, API, PINZ and / or NZIV.
Member	A Member of the API, PINZ and/or NZIV.
Property Insured	Property insured is a term commonly used to describe the property that is covered under the insurance policy. Insurance policies typically provide insurance cover for all real and/or personal property of every kind and description, unless specifically excluded, belonging to the insured or for which the insured is responsible or has assumed responsibility to insure. In some circumstances a property owner may self-insure some assets and these should be identified. The property insured also extends to all property in which the insured may acquire an insurable interest during the period of insurance. An insurable interest may result from the completion of

an agreement to purchase an asset even though settlement may occur at a future time.

Reinstatement Cost	Where property is lost or destroyed, in the case of a building, the rebuilding thereof, or in the case of property other than a building, the replacement thereof by similar property in either case in a condition equal to, but not better or more extensive than its condition when new. Where property is damaged: the repair of the damage and restoration of the damaged portion of the property to a condition substantially the same as, but not better or more extensive than its condition when new.
Replacement Cost	The current cost of a similar asset offering equivalent utility.
Reproduction Cost	The current cost of recreating a replica of the asset.
Situation	Situation is a term commonly used in insurance policies to refer to the specific location of the insured assets. The insured may have many situations covered by the same insurance policy.

3.0 Common Insurance Policies and Conditions

3.1 Background

The preceding definitions and the following information are provided to assist Members in understanding the common types of insurance policies available and some of the terminology commonly used in those policies, but members should be aware that each policy of insurance could be subtly or dramatically different in how it defines the terms discussed herein. The mechanism by which values, or costs of reinstatement are calculated will differ in each policy of insurance.

It is preferable for members to state whether they have or have not read or referenced the insurance policy associated with the property insured. If a policy has been referenced, a statement of any specific issues that have affected the Member's assessment should be noted, and if it has not been referenced, Members should acknowledge the same and ensure that the basis of their assessment is clear to the party to whom the report is addressed.

3.2 Common Insurance Policies

There are many different types of insurance policies available. The most common policies relating to the insurance of buildings and contents are:

3.0.1 Home Policies

Home policies can cover buildings and/or contents. The amount of cover provided under such policies is commonly described as the sum insured. The sum insured is the maximum amount the insurer will pay in the event of a loss under an insured peril.

The homeowner nominates the amount of the sum insured. The sum insured may be the reinstatement cost or indemnity value of the house or home and/or contents as defined by the insurance policy.

A general definition of house or home is a residential building at the insured address including its structural improvements, fixtures, fittings and domestic outbuildings.

A general definition of contents is furniture, furnishings, unfixed electrical goods, valuables, portable personal possessions, clothing, and unfixed household goods that are the property of the insured.

Insurers generally require separate amounts for items such as retaining walls, special features, swimming pools, tennis courts and other recreational facilities.

3.0.2 Industrial Special Risk (ISR) Policy

The ISR policy is the most common policy for commercial/industrial insurance. This type of policy typically addresses many areas in addition to buildings and contents.

Both above types of policies are most commonly offered on the basis of reinstatement cost and/or indemnity value, however, other valuation bases such as reproduction cost or replacement cost can also apply.

3.3 Typical Policy Indemnity Cover

Typical policies provide that in the event of any physical loss, destruction, or damage, which has not been specifically excluded under the policy, the insurer will indemnify the insured in accordance with the applicable basis of settlement.

The insurer will also typically indemnify the insured, in addition to the cost of rebuilding, for the following, provided the liability of the insurer does not increase beyond the limit of liability:

a) Fees associated with the cost of rebuilding such as those applicable to architects, surveyors, consultant engineers, legal advisors, etc.

b) Local Government fees and charges.

c) Costs and expenses incurred for the purpose of extinguishing a fire at or in the vicinity of the property insured and threatening to involve such property.

d) Costs associated with making the property safe after a loss.

e) Costs of replacing locks, keys, or safe combinations in appropriate circumstances.

f) Costs and expenses necessarily incurred in respect of removal of debris.

g) Damage to tools and clothing belonging to Directors and employees of the Insured whilst on the Premises.

h) Temporary protection of undamaged property.

i) Temporary repairs.

j) Property of others for which insured is legally liable.

If the basis of insurance under the policy is indemnity value, or, in the event of a loss, if the insured elects not to replace/reinstate or repair the asset, then the insurer may make a payment based on the indemnity value of the asset(s) at the time of the loss.

3.4 Extra Cost of Reinstatement

Policies for buildings and site improvements typically extend to include the extra cost of reinstatement of damaged property to comply with the requirements of building regulations in place at the time the loss occurs.

This extension is typically subject to the following provision:

The amount of the claim cannot include the cost of complying with a requirement which existed prior to the loss occurring and with which the insured was required to comply.

As a general rule the insurer will only insure the assets as they exist, not as they may be replaced. The reason for this is the incidence of a partial loss where repairs are made to the existing structure.

However, it may not be possible to reinstate an existing structure following a loss because it no longer complies with current building and fire regulations or other statutory encumbrances.

Insurers therefore allow the insured to insure for the extra costs associated with complying with these regulations.

3.5 Reinstatement Rights/Existing Use Rights

In the event of a total loss and whereas a result of the exercise of statutory powers by a regulatory authority, the reinstatement of a building as it existed prior to the loss may be prohibited or restricted, the insurer may pay in addition to any other amount payable on reinstatement of the building the difference between:

a) the actual cost of reinstatement; and,

b) the cost of reinstatement if it were not prohibited or restricted.

Any payment made for the difference between (a) and (b) above would be made as soon as the difference is ascertained upon completion of the rebuilding works. In several policies this provision is only in respect of the floor space ratio index or plot ratio.

3.6 Co-insurance Clauses

Co-insurance clauses provide that, if at the time of the loss the value of the property insured exceeds the amount of cover, the insured is self-insuring for the difference in value and therefore bears a rateable proportion of any loss (including a partial loss). This process of sharing a rateable proportion of the loss is also referred to as averaging (Addendum C refers).

3.7 Limit of Liability

Insurance policies often include a limit of liability. Members are not usually required to assess this amount directly. The limit of liability is the amount representing the maximum liability of the insurer for any one loss or series of losses arising out of the one event at any insured situation. It therefore includes the total cost of reinstatement from the time that the policy commences up to the time reinstatement takes place after a loss.

In the worst-case scenario, a loss could occur on the last day of the insurance period. The limit of liability would therefore include the reinstatement cost at the start of the policy, plus the reinstatement inflation for the policy period and the lead time and rebuild period, plus the cost of demolition.

3.8 Fiduciary Interests

Members should be aware that other parties, for example, lessors, financiers, trustees, mortgagees, and the like, can have interests in the property insured and should act in the knowledge that liability may extend to those other parties. If a member does not wish to extend their liability to parties other than the person who has commissioned the valuation for insurance purposes, then the member should include an appropriate disclaimer.

4.0 Instructions

As with any other valuation, the scope of work, basis of value, effective valuation date and any other factors relevant to the valuation should be agreed and confirmed with the client.

Ideally the client will provide the Member with a copy of the insurance policy which will detail the basis of insurance and extent of inclusions and exclusions under the policy. In New Zealand, Members are typically not qualified to review policy wording and as such perusal of such documentation is not required.

In the event the Member is not provided with a copy of the policy it would be prudent for the Member to obtain clear instructions from the client confirming the scope of the work and any special inclusions or exclusions that are required. In circumstances where this is not possible the Member should state within the insurance valuation report the basis of assessment (e.g. reinstatement or indemnity) and the extent of inclusions and exclusions within the insurance valuation. In New Zealand, unless otherwise requested, Reinstatement Value and Depreciated Replacement Cost are required by the Members. However, for domestic / home policies, Reinstatement, Inflationary provision, and demolition is typically only required. For older buildings, an assessment of Indemnity Value maybe required by stakeholders or clients.

It is recognised that in many cases Members will be asked to prepare insurance valuations without the benefit of insurance policies. These situations include where a client is yet to select an insurer or policy, or where a Member has been asked to provide an insurance valuation in addition to a market valuation on behalf of a third party (i.e. not the insured).

Members may be asked to provide an insurance valuation as part of a valuation for mortgage security purposes, under instructions from a financier, to ensure the interests of the financier are appropriately insured. In these circumstances it is unlikely the Member will have access to insurance policy terms and the Member should qualify the valuation in terms of inclusions and exclusions having regard to typical insurance policy terms for that type of asset.

> *In the event a Member has been engaged to assess an insurance claim under an existing insurance policy, it would be prudent for the Member to request and consider the terms and conditions of the actual insurance policy.*

When considering the terms and conditions of the actual insurance policy it may be prudent for the member to obtain legal advice as to the operation of clauses within the policy.

5.0 Assessing Reinstatement Cost

Reinstatement cost is sometimes referred to as the cost of reinstating an asset to an as new condition or new for old. The reinstatement cost notionally assumes a total loss.

In the case of a partial loss, reinstatement cost also covers the cost of repairing the property insured to its condition when new. The extent of damage and therefore the cost of repairs cannot be anticipated prior to an actual loss occurring. The cost of repairs may be more or less than the reinstatement cost of the property insured.

To the extent the estimated cost of repairs is greater than the estimated cost to completely replace or reinstate the property insured, it is to be assumed that the insurer would seek to completely replace or reinstate rather than repair the property insured. In any case, the assessment of repair costs is typically within the area of expertise of a loss adjustor or loss assessor and can only be completed after a loss has occurred.

It can be seen therefore, that seeking to estimate the costs of repair is neither possible nor relevant when completing valuations for the purpose of setting the amount of cover.

The sums insured under a reinstatement insurance policy usually include the following elements of cost:

a) Reinstatement cost estimates.

b) Fees and contingencies.

c) Estimates in respect of cost increases during the policy period, lead time and reconstruction periods.

d) Demolition and debris removal.

These are considered below however it is noted that whether it is a Member's responsibility to quantify these components of the sum insured will depend on the scope of work agreed between the Member and the client. The valuation report should clearly state whether these items have been included or excluded.

5.1 Reinstatement Cost Estimates

There are several ways of providing an estimate of reinstatement cost for buildings, structures and site improvements. Two of the more common approaches are:

a) an estimate based on building cost guides; and

b) an estimate based on elemental costs.

In the former the estimate of reinstatement cost is based on construction cost rates (typically, but not always, rates per square metre) published in building cost guides and/or construction contract rates. This commonly used method is intended to provide indicative cost estimates.

Elemental building cost estimates determine the construction cost of a building, structure, or site improvement by reference to the estimated cost of the individual components or elements of that building, structure, or site improvement. The application of such an approach requires specific training and knowledge.

Members who are qualified to complete elemental cost estimates typically obtain detailed building plans and specifications or gather such information from a physical inspection of the site to assist in the accuracy of the determination. Where information is available, recent constructions of a similar nature may assist to determine the appropriate cost for each element. Consideration should be given to the reliability of evidence available, and the information assessed in terms of comparability to the subject asset.

All other things being equal an elemental cost estimate is likely to produce a more robust cost estimate than an estimate based on building cost guides as is evidenced by the statement that the latter is intended to provide an indicative cost estimate.

In applying the selected method(s), Members should have regard to the following factors (if quantifiable):

a) Specific materials used in the building (e.g. mixture of stone, brick, plasterboard, etc.).

b) Location factors (e.g. remote or rural sites v metropolitan).

c) Design of building including soil type, special footings, etc.

d) External dimensions of a building (some cost guides relate only to internal building measurements).

e) All fees associated with reconstruction including architects, survey, and engineering fees.

f) Cost increases/decreases between the date of issue of published cost guides and / or the date of construction contracts, and the date of valuation.

Valuations undertaken in non-metropolitan and remote areas would usually reflect regional costs associated with labour and materials. It may be possible to estimate the location factor by investigating local construction costs and / or by examining a sample of costs and relating them to known costs.

In respect of common home policies, unless specifically excluded, the following items are typically included in the insured value for buildings:

a) permanent decks.

b) greenhouses and garden sheds.

c) patios, pergolas, and built-in furniture.

d) aerials and satellite dishes that are attached to the home.

e) fixed floor coverings.

f) coverings fixed to the ceiling or wall, but not curtains, drapes, or blinds.

g) fixed light fittings and appliances permanently wired or plumbed to a gas plumbing or electrical supply.

h) letter boxes, exterior blinds and awnings, fixed clotheslines, and built-in barbeques.

i) septic tanks, heating oil tanks, service tanks, water tanks, and their fixed pumps and systems.

j) permanent spa pools or swimming pools, including their fixtures, covers, pipes, and fixed pumps.

k) walls, fences, and gates.

l) gas pipes, fresh-water pipes, underground drainage, and sewerage pipes.

m) electricity, data, and telephone cables and poles.

n) any driveways, bridges, paving and tennis courts.

o) any private road, lane, right-of-way, access way or bridge providing access to a driveway owned by the homeowner or shared by the homeowner with other residential property owners and for which the homeowner is responsible.

p) permanently installed fishponds and water features connected to the dwellings water supply.

q) sculptures and artwork affixed to the home and/or land.

r) the homeowners share in any wall's fences, gates, pipes, cables, or driveways where these items are jointly owned by the homeowner and other property owners.

s) costs associated with rebuilding the home such as architects' fees, site clearance, removal of debris, inflation allowance and wide area damage.

In New Zealand, most insurers require that some other improvements be separated into three categories: Recreational features, Retaining walls and Special features.

In the case of industrial premises items such as masts, antennae, underground tanks, and other similar items of equipment are more commonly included as part of the insured value of plant and equipment.

Unless specifically excluded under the terms of the policy or other legal requirements all site improvements should be specified and included in the sums insured. However, in New Zealand it is not required that Policy documentation be reviewed by the member. All improvements should be included in the valuation unless the Member receives instructions to the contrary or if any improvements are excluded from the valuation, these should be stipulated within the report.

Where there is plant and equipment and/or other services associated with a building, or where various components of the buildings, plant, equipment, and other services are being assessed separately by different valuation specialists, it may be necessary for the different valuation specialists to confer to ensure that no components are either missed or double counted.

The reinstatement cost for plant and equipment should be based on the replacement cost of currently available equipment, including costs of transport, installation, commissioning, consultants' fees, engineering, procurement, and construction management (EPCM) costs and non-recoverable taxes and duties. Design, EPCM and other similar costs (sometimes referred to as 'common distributable costs') are considered from the point of view of the reconstruction of a complete facility, rather than the cost of the original assets.

Members should be aware that the insurance basis for Heritage Assets (refer section 5.7 of this GP) may require a reproduction or replication-based assessment.

5.2 Fees

Members should assess in each case the extent of involvement of professionals such as architects, surveyors, consultant engineers, etc. and where applicable, should include an appropriate allowance for their fees.

5.3 Lead Time

Lead time is the period after a loss occurs when the remaining improvements are demolished, plans and specifications of the replacement building are drafted and agreed upon, appropriate approvals are sought and obtained from the appropriate authorities and all matters are completed in preparation for rebuilding.

To the extent it is included within the agreed scope of work cost increases during this period need to be calculated. As this is a future estimate, it will require suitable qualification and a disclaimer. For plant and equipment, the unpredictability of future cost inflation/deflation, especially that caused by foreign exchange rate fluctuations, means that any such allowance is subject to significant potential estimation error and, if provided, should therefore be suitably qualified and subject to a disclaimer. For this reason, Members may elect not to provide such an estimate.

For plant and equipment that is located within a building, in the event of a loss, the building will usually have to be replaced before the plant and equipment can be replaced. Therefore, the total lead time allowance may need to also include the building lead time.

Whether the valuation is to include an allowance for cost increases during lead time will be determined by the scope of work agreed between the Member and the client. The valuation report should state whether the values reported are inclusive or exclusive of such costs.

5.4 Reconstruction Period

The reconstruction period is the period from the time building approvals have been obtained to completion and handover of the new facility. To the extent it is within the agreed scope of work, cost increases during the reconstruction period need to be calculated.

For plant and equipment only, it is not commonplace to include such items in the scope of work, however, where it is to be provided, it is noted that:

For substantial installations, a lengthy period may be required whilst the plant is constructed, installed, and commissioned.

Cost increases should be included only to the extent that the building or plant and equipment is completed in various stages. Members should consider each element of construction to determine what allowance for cost increases should reasonably be made. As this is a future estimate it will need suitable qualification and a disclaimer.

For plant and equipment that is located within a building, in event of a loss, the building will usually have to be replaced before the plant and equipment can be replaced. Therefore, the total reconstruction period allowance may need to also include the building reconstruction period.

The unpredictability of future cost inflation/ deflation, especially that caused by foreign exchange rate fluctuations, means that any estimate of the reconstruction period is subject to significant potential estimation error and if provided, should therefore be suitably qualified and subject to a disclaimer. For this reason, Members may elect not to provide such an estimate.

Whether the valuation is to include an allowance for cost increases during the reconstruction period will be determined by the scope of work agreed between the Member and the client. The valuation report should state whether the values reported are inclusive or exclusive of such costs.

5.5 Demolition and Removal of Debris Estimate

To the extent it is within the agreed scope of work, the cost of demolition and removal of debris should be estimated by having regard to any known demolition and removal costs for similarly constructed assets in the locality, and / or demolition costs published in building cost guides. Members should have regard to the relative difficulty of demolishing and removing the asset.

Consideration should be given to any generally known presence of asbestos or similar hazardous materials - particularly the potential for asbestos to contaminate the site and surrounding areas in the event of major damage to the property. If available an asbestos report should be obtained or noted if not available. Difficult access to a site may also be a factor that should be noted and addressed. Members should assume that all assets would be destroyed in a loss situation and would require removal prior to reinstatement.

Whether the valuation is to include an allowance for demolition and debris removal will be determined by the scope of work agreed between the Member and the client. The valuation report should state whether the values reported are inclusive or exclusive of such costs.

5.6 Goods and Services Tax (GST)

GST is payable on building costs, plant & equipment, and professional fees, however, the way a claim is settled may determine whether it is possible to claim the GST back as an input tax credit. For example, most insurers are eligible to claim back GST paid, however, the GST status of the insured may determine whether the insured is able to claim back GST paid. For most industrial and commercial assets, GST is therefore not typically included as either the insured and/ or the insurer will generally be able to obtain the benefit of the input tax credit. However, insurance estimates for home insurance should include GST.

Members should clearly state whether the values reported include or exclude GST.

5.7 Heritage Assets

A heritage asset is one that is deemed worthy of preservation usually because it is a good example of its type, has historical, cultural, or environmental significance, rarity, or a combination of these factors. Where a heritage asset has been officially designated as such by relevant heritage authorities, legislation may prevent renovations, modifications additions and the like by imposing strict requirements and lengthy approval processes. Many governments have enacted measures to safeguard specific historic properties or to protect whole areas/precincts of special architectural or historic interest.

In the case of a total loss where a heritage building has been destroyed along with the element of heritage to be preserved, then the historic significance is likely to have been lost.

In such circumstances heritage restrictions may then be lifted and the owner may be at liberty to replace the building or redevelop the site as per planning requirements, unaffected by heritage issues on the subject property.

However, the risks arising from partial losses are heightened in heritage assets, given heritage legislation may require making good of damaged areas and this may require repairing or reproducing every component of the building in a style and form of construction that most closely resembles the remaining original structure. Increased costs may be incurred due to the engagement of suitable tradespeople, such as those skilled in stone masonry, iron tracery and stained glass, etc.

Given the risks of increased costs of reinstatement in the event of partial claims sums insured are therefore typically determined using a reproduction cost basis (i.e. the cost of rebuilding the structure as it exists allowing for all extra costs of reinstatement). This method establishes the current cost of reproducing every component of the building in a style and form of construction most closely resembling the original.

In completing valuations of heritage assets Members should consider likely increased lead times, higher constructions costs and professional fees. Members may also need to consider implications in terms of reinstatement/existing use rights or planning controls within heritage precincts (whether the subject building is or is not heritage listed).

In some instances, an owner may have the option to replicate rather than reinstate with a modern equivalent asset, even though replication may not be compulsorily required in the event of a loss and will obtain an insurance policy that provides this basis of settlement. If this is the case, Members will require and should obtain clear instructions as to the basis of assessment. In such cases, the asset will need to be insured and valued on a reproduction cost basis.

5.8 Other Related Bases of Value

This GP outlines the bases of value most adopted in insurance policies in Australia and New Zealand. Numerous other bases of value are used by insurers. Whilst it is impossible to provide an exhaustive list, the IVSC definitions of reproduction cost and replacement cost are included in the Definitions sections of this TIP as they provide a useful reference.

It is important however for Members to ascertain which basis of value applies before commencing the valuation.

5.9 Betterment

Members should ensure that the valuation does not give rise to betterment. That is, the valuation should not be based on a more substantial or superior property than that which existed when the property was new.

6.0 Assessing Indemnity Value

The common definition of indemnity established in case law is the loss that would be suffered by the insured in the event the asset was destroyed. This can be, but is not necessarily, the market value of the asset destroyed or damaged.

The measure of loss in the event an asset is destroyed can be estimated using either the market approach or the cost approach, depending on the nature of the asset, client instructions and the circumstances.

It is recognised that a single insurance valuation which covers multiple assets (for example, plant and equipment valuations may include both specialised and non-specialised assets) may require both types of approach to assessing indemnity value. Equally, Members may be requested to undertake a market-based estimate of indemnity value and/or a cost approach estimate of indemnity value.

However, established the indemnity value assessment should take into consideration the age, condition and remaining useful life of the asset.

In the case of insurance, useful life is not synonymous with economic life, but rather only reflects physical life. The insured is entitled to insure the remaining physical life of an asset, even though the economic life may have expired.

Therefore, the determination of indemnity value using the cost approach requires in the first instance, the assessment of reinstatement cost and then an assessment of the likely physical life of the asset and the life expired. The expected physical life of an asset is assessed on the basis that reasonable maintenance is carried out to preserve the existing use.

Members should consider the expected life of assets in the location of the valuation and elsewhere as appropriate.

It is common practice to apply a straight-line method of depreciation when determining indemnity value, (especially in respect of specialised buildings, structures, plant, and equipment) which assumes that the remaining service potential of the asset is used up at a constant rate assuming reasonable maintenance. However, there are types of plant and equipment, particularly those that experience rapid technological and functional obsolescence, for which other methods including the diminishing value method, may be more appropriate.

To the extent plant and equipment is valued based on indemnity value using a market approach, the indemnity value may comprise two components, depending on the nature of the asset. The first component is the cost of acquiring a comparable item of equipment from the second- hand market to which is added the (un-depreciated) cost of installing and commissioning that item.

Members should include reference within their report/ covering letter that an indemnity value determined using a cost approach may not be the same as one determined using a market approach, and in some cases, the difference might be material.

To reduce the risk of co-insurance being claimed by the insurer in the event of a loss occurring, it would be prudent for agreement to be reached by all parties, including the Member, client and insurer or insurance broker, in respect of the method or methods to be adopted. Ideally this would be documented as part of the engagement agreement and within the insurance valuation report.

As for any other valuation, valuers should fully explain any assumptions, the methodology adopted and the reasoning that supports their conclusion as required by IVS. This will invariably require information, which should be included in the insurance valuation report or scope of work.

In New Zealand, Indemnity Values are also used for the purposes of assessing the Fire and Emergency Levies on replacement insurance policies. Members should refer to the New Zealand specific addendum of this GP for further clarity around the assessment of Indemnity Values for this purpose.

7.0 Report Content

7.1 Buildings

In addition to those items covered under IVS101 and IVS 103 an insurance valuation report for buildings and site improvements should include, (to the extent included within the agreed scope of work):

a) A concise description of assets including a clear statement as to whether floor coverings, internal partitions, fit out, retaining walls, other site improvements and services are included in or excluded from the valuation.

b) A reinstatement cost estimate and/or indemnity value estimate as at the date of inspection.

c) An estimate of the cost of demolition and removal of building debris.

d) An estimate of the cost increases during the policy period (this and the following two cost increase allowances are typically provided as separate inflationary estimates).

e) An allowance for cost increases during the lead time, i.e. the period after a major loss when debris is removed, building plans are drafted and necessary approvals are obtained.

f) An allowance for cost increases during rebuild period.

g) A statement as to the treatment of GST.

h) A statement of specific valuation exclusions such as plant, equipment tools, furniture, stock and materials in trade, and the costs of removal/disposal of these.

i) Reference to the method and extent of fire protection services.

j) A statement regarding the treatment of financing costs during reconstruction and whether it is assumed they are met by way of progress payments as costs are incurred.

k) Any relevant qualifications and disclaimers, which includes comments upon any unverified information or assessments of future events.

Members should clearly describe the improvements that they have included in their insurance estimate.

Loss of rent/profits may also be required depending on the agreed scope of work.

7.2 Plant & Equipment

For plant and equipment assets, the report content should include or explain the following (to the extent included within the agreed scope of work):

a) A brief description of the assets.

b) A reinstatement cost estimate and/or indemnity value estimate as at the date of inspection.

c) An estimate of the cost of demolition and removal of plant and equipment debris.

d) An estimate of the cost increases during the policy period (this and the following two cost increase allowances are typically provided as separate inflationary estimates).

e) An estimate of the cost increases during the lead time, i.e. the period after a major loss when debris is removed, building plans are drafted and necessary approvals are obtained (often any buildings housing plant will have to be reinstated before the plant can be reinstated) plus any additional lead time associated with the plant reconstruction and installation. This period can be substantial. Because inflation and, if applicable, foreign exchange rate changes can be volatile, any such estimates will require qualification.

f) The treatment of obsolete assets. It is common for obsolete or unused assets to be excluded from a valuation; where this is the case, this should be explicitly noted.

g) An allowance for installation and commissioning costs.

h) A statement as to the treatment of GST.

i) A statement regarding the treatment of financing costs during reconstruction.

j) Any relevant qualifications and disclaimers, which includes comments upon any unverified information or assessments of future events.

7.3 Location (situation)

The location (situation) of the insured property should be identified. An owner may have many locations (situations) covered by the same insurance policy. Additionally, all freestanding buildings on a site will usually be separately identified as they may represent separate insurance risks.

8.0 Other Issues

Large-scale catastrophes and disasters can result in unforeseen escalations in building and other related costs due to the high demand for building materials and labour. Declared values or sums insured are usually determined based on a single loss and not in the context of a more widespread catastrophe such as an earthquake, flood, or bushfire.

Because such events can give rise to shortfalls between the declared values or sums insured and the ultimate cost of reconstruction, Members may wish to include suitable disclaimers when completing valuations for the purpose of setting sums insured, excluding possible cost escalations arising from such catastrophic events.

9.0 Effective Date

This GP is effective from 1 July 2021. Earlier adoption is permitted and encouraged.

This is GP replaces ANZVTIP 4 which was effective from 1 January 2021 when it was withdrawn from 30 June 2021

Addendum A – Legislation and Other Matters Specific to New Zealand

A1.0 Legislation

Members should be aware that in New Zealand, the insurance valuation report provided may be used in the context of the following legislation:

A 1.1 Fire and Emergency New Zealand Act 2017

The Fire and Emergency New Zealand Act 2017 repealed the two Acts governing fire services, the Fire Services Act 1975 and the Forest and Rural Fires Act 1977. The Act was given Royal Assent on the 11th of May 2017. Whilst the Act is in place, the new basis for levy calculation has not been finalised. In April 2019, the Fire and Emergency New Zealand (Levy Rates and Information Requirements in Transitional Period) Amendment Regulations 2019 came into force. The amendment removes the reference to an implementation date of 1 July 2019 to provide that the regulations will be revoked when the new levy regime comes into force.

At the effective date of this GP, Fire service levies are to be calculated in accordance with the 1975 Fire Services Act. In New Zealand, the Fire Service levy is collected from the insured and it is generally calculated as a prescribed percentage of the indemnity value of the insured asset. Therefore, it is necessary for the indemnity value to be assessed even though the insured may have a Replacement Policy.

Indemnity is not defined in the Fire Services Act 1975 and, if it is assessed for Fire Service Levy purposes, should be assumed to have the same meaning as in the insurance industry and in insurance case law.

Please refer to Section A2.11 for more detail in relation to the Indemnity Value estimates carried out for Fire Service Levy purposes.

Certain categories of property (mainly ancillary structures such as fencing, retaining walls, roads, paths, drains, bridges, tunnels, reservoirs, etc.) are exempted from the Fire Service Levy (refer Section 47B (Third Schedule) of the Fire Service Act). On a large site these may comprise a substantial portion of the total indemnity value. The insured may wish to have these assets identified separately or excluded, so as not to pay levies that are not legally required.

The Standards Board will look to amend this Section if and when the structure around Fire Service Levy collection is enacted.

A1.2 Earthquake Commission Act

In New Zealand, the Earthquake Commission Act ("ECA") provides for cover against natural disaster. It applies only to residential property. Between the insurer and EQC, in the event of an earthquake whether a partial or full loss, subject to the property being fully insured in monetary terms then the property owner will be covered. Although each may have limitations on specific items, from a valuation perspective the objective is to ensure that an adequate sum insured is determined so the property owner may be fully insured as opposed to being concerned with whether the EQC or insurer pay.

Cover under and the ECA may be based on the floor area and therefore insurance valuations of residential buildings should include the gross floor area for each individual unit within the insured property, either within the asset description or in the covering letter/report.

Furthermore, services, including bridges and culverts, retaining walls and support systems within 60 metres of the perimeter of an insured residential use building are generally covered by ECA.

Historically, in relation to site development, Some members have commonly only included assets which are located within eight metres of the perimeter of the insured structure. However, the “eight metre” requirement only applies to residential structures referenced under the ECA, and should not be applied for general insurance cover, which is discussed more fully in this GP. In summary the Valuer should allow for all improvements and if an item is not included then this must be clearly stated.

A1.3 Domestic ‘House Insurance Policies’

In New Zealand, ICNZ identifies three different forms of policy cover:

Fixed Sum Insured – This is specified by the homeowner and is based on the full rebuild cost of the home. If the house is destroyed, cover is up to this amount.

Indemnity – Cover is for what the house was worth prior to loss (excluding land) factoring in general wear and tear. ICNZ specifies that some older homes (pre-1945) may only qualify for Indemnity Cover unless they have been modernised.

Total Home Replacement – This is where the premiums are based upon the size of the house and insurance would cover the entire cost of replacement if damaged.

For more detailed information, we advise members (and their clients) to peruse detail on the ICNZ Website.

It is important to highlight that that ICNZ advise that for most Home policies insurers require separate identification of the following:

‘Retaining Walls’

‘Recreational features’ – ICNZ defines recreational features as ‘permanently fixed outdoor items built for the purposes of recreation, such as swimming pools, spa pools and tennis courts’ and that these (along with retaining walls) may have limited cover or in some cases, no cover at all. It is recommended that improvements that fall into this category are separately itemised.

‘Other Special features’ – ICNZ defines the following improvements as being ‘special features’ and are excluded from most house policies:

a) Jetties.

b) Wharves.

c) private landings or airstrips.

d) permanent fords or dams.

e) bridges and culverts.

f) cable cars.

g) private utility plants (such as windmills, water mills or diesel generators).

For more detailed information, we advise members (and their clients) to peruse the ICNZ Website for detail on policy types and information insurers require.

A2.0 New Zealand Insurance Form

A2.1 Insurance Form

For many years PINZ and NZIV members (both Land and Buildings and Plant & Machinery Valuers) provided a valuation in certificate form summarising the information for the clients as well as the insurance industry in an easily recognisable summary format.

As a result of national disaster events and changes to insurance policies, legislation, and levy calculations the insurance industry now requires reports to contain more detailed information to assist stakeholders with the insurance process.

To meet the requirement of clients and stakeholders, PINZ & NZIV recommend that insurance valuation reports contain a Certificate which complies with FENZ requirements and is very similar to that previously provided, with additional information on subsequent pages. The intention is to allow for a range of information tailored to the needs of the insurance industry. The opportunity exists for all valuers to liaise closely with clients so that useful and quality information is provided which will allow a decision to be made as to appropriate levels of insurance cover.

Key information to be included on the Summary Certificate and subsequent pages includes:

a) A more detailed description of the improvements that are included in the valuation retaining walls, underground services, common property, and other site improvements etc. Also, clear detailing of improvements that have been excluded from the valuation.

b) For commercial buildings, the valuation should state whether floor coverings, heating ventilation and air conditioning services, internal partitions or other fit-out are included or not. As some items of fit-out can be Tenant owned, it is important to seek confirmation from the client as to what is to be included / excluded from the valuation.

c) Insurers require information as to the nature and value of shared property to make appropriate allowances for insurance risk on that shared property. These can include shared driveways or other such common areas. In terms of cross-lease properties where multiple insurers can be involved, unless improvements lie within an area of land defined in the Flats Plan as exclusive use, the insurers pro-rata the total reinstatement cost over the total number of Flats. In a Unit Title situation however, there is only the one insurer. The valuation should clearly state how such “common property” has been treated.

d) Aerial photo and location map.

e) Inclusion of a Value summary into a table format if multiple improvements are being valued (as shown in Addendum B).

f) For residential properties, inclusion of a Value summary into a table format separating any Recreational Features, Retaining Walls, or Special Features (as shown in Addendum C).

g) The certificate should only include those values or estimates required or requested. If a market related indemnity value, functional replacement or indemnity inflation estimates are required columns should be added to hold this data.

The requirement for additional information in many cases may make it impractical to include all relevant information on a 1-page summary or certificate. Accordingly, industry stakeholders have requested, and members are encouraged to provide a summary similar to the historical certificate as shown in the Addendum B with additional information on subsequent pages including an aerial photo, location map and more comprehensive construction detail and other matters (if required) together with the appropriate definitions and limitations.

The insurance Council has requested that Valuers include a depreciated replacement cost as detailed herein which provides for physical depreciation only.

In some circumstances such as where an indemnity insurance policy is in place, a Market based indemnity value may be required. This should be confirmed by the client as part of the instruction.

As a reminder, Section 5.6 of this GP refers to the treatment of GST.

Where a home insurance valuation is provided on a plus GST basis, it is recommended that a GST inclusive total amount also be shown in the summary.

A2.2 Asset Description

Members should include in the summary a condensed description of the insured assets and clarifying what is excluded from the assessment. For buildings, a general description of the main building(s) including main construction components, and site development should be provided. The description needs to be clear as to what plant & equipment as well as underground & overhead services are included.

For the purposes of the underwriter’s risk assessment, Members are encouraged to identify the method of fire protection (for example, sprinkler system or heat/smoke detectors and automatic alarm) and this should be noted, along with the extent of coverage (for example, warehouse/office/canopies).

For commercial buildings, the valuation should state whether floor coverings, heating ventilation and air conditioning services, internal partitions or other fit-out are included or not.

For residential properties, identification of improvements that fall under the categories of Recreational features, Retaining walls and Special features together with confirmation within the report as to whether these improvements have been included or excluded within the valuation.

All freestanding buildings on a site should be separately identified as they represent separate insurance risk.

A2.3 Upgrade Requirements

Due to ongoing legislative changes, many buildings will not comply fully with building ordinances and the like. The modern equivalent asset assumption is intended to embody upgrade requirements without necessarily explicitly addressing compliance deficiencies. Typically, it will be helpful to summarise major differences between the insured asset and the modern equivalent asset under the heading Upgrade Requirements.

If publicly available, comment should be made as to any likely impacts because of hydrology issues (flood plains, overland flow paths, flood prone areas, etc) and land subject to liquefaction or within close proximity to a fault line, etc. Such environmental matters may impact on foundation / structural designs that would be over and above the ‘modern equivalent’.

A2.4 Age

This is the earlier of the estimated year of completion of the asset or the commissioning date. The year of any significant upgrade or addition should be noted.

A2.5 Land Contour (Building valuations only)

This is a classification of the land contour containing the building/s and immediate yard areas. Valuer’s classification of the land contour containing building and immediate yard areas, common terms include Level; Gentle; Easy; Medium and Steep and may include a comment if the land is retained.

A2.6 Subsoil Type (Building valuation)

This information is required by Underwriters as a broad indicator of seismic stability and other geological land risk factors such as potential liquefaction and fault lines. An entry should only be made in this portion of the report when the valuer has accurate knowledge as to the sub-soil type.

The perception gained from the definition can have a significant impact on insurance cost particularly in earthquake prone areas throughout New Zealand. It is important to discuss this aspect with your client and where potential penalties could arise; the insured should be encouraged to seek more detailed information from the Local and Regional Authority or engineering specialists.

A2.7 Other Known Characteristics

These will include any items not otherwise covered within the report, which will be of assistance to the client and/or insurers and should only be detailed when information is known on a particular topic, e.g. tenant fit out exclusions, locational factors, surrounding property uses, hydrology issues (flood plains, overland flow paths, flood prone areas), etc.

A2.8 Use/Occupation.

This should include a short description of the main site use. Where mixed use occurs, e.g. commercial/residential, this should be recorded. Because of FENZ and EQA requirements some stakeholders may require the value of the residential component to be separately shown.

A2.9 Reinstatement Cost Estimate (1.0 A)

The definition which is included in the form has been redefined in line with common insurance valuation practice in New Zealand as:

“an estimate of the cost, as at the date of valuation, including relevant fees, of replacing the asset with a new modern equivalent asset, including where appropriate the use of current equivalent technology, materials and services. This is intended for the purpose of assisting the parties to the insurance contract in negotiating insurance premiums and, unless specified elsewhere, is not based on a detailed elemental and schedule of quantities approach as would be undertaken by a quantity surveyor or costing engineer. In construction unanticipated problems often arise and actual rebuilding, repair or replacement costs may vary from the estimate.”

However, Members who have suitable experience and relevant information may undertake a more detailed, elemental, (see Section 5.1 of this GP) approach to estimating the Reinstatement Cost and may provide an amended definition. If reproduction cost is provided (and where agreed with the client, the existing construction materials/methods are not modern materials/methods), then the standard Reinstatement Cost Definition will certainly require modification.

The Reinstatement Cost Estimate is only valid as at a particular date (generally the date of inspection) unless stated otherwise. Notwithstanding that for insurance valuation purposes, valuers may give an indication of inflationary provision. Insurance values are not to be provided as at future dates.

Additional clarification is included to explain that the Reinstatement Cost Estimate does not include any allowance for catastrophic events (for example an earthquake) that may drive up replacement costs within a locality by increasing demand for repairs and rebuilding and creating an unusual shortage of labour and materials.

Members should note that no specific identification is made in the Reinstatement Cost Estimate of the cost of different materials and additional services. Should separate identification and calculation of costs be required, then this should be supplied on request. However, for any major items required, including a summary of such items may be appropriate.

A2.10 Inflationary Provision (Reinstatement Cost) (1.0 B)

This should include for cost inflation during the 12-month insurance period, lead time and construction period. It should be noted that no allowance is to be made for any delay due to the need to comply with the provisions of the Resource Management Act including possibly the requirement to reinstate on an alternative site. All inflationary estimates provided should be suitably qualified.

A2.11 Indemnity Value Estimate

This is the estimate of the loss that would be suffered by the insured in the event the asset was destroyed.

Members may be requested to undertake a market related indemnity value estimate utilising a depreciated replacement cost estimate or other alternative methodology that would assist in identifying the loss in economic value the improvement(s) had to the insured. The New Zealand Insurance Form (Addendum B) provides two options for reporting indemnity, being Market Related Value and Depreciated Replacement Cost. Where an alternative method is provided, the method should be clearly detailed on the form, the scope of work and explained within the report.

Indemnity Values are also provided for the purposes of calculating Fire and Emergency Levy’s and for this purpose, a number of items can be excluded from the assessment. This is detailed below in the Depreciated Replacement Cost Section as this is the primary method used for this purpose.

The valuation scope of work / report should reference the methodology applied in assessing indemnity value, acknowledging the comments in this section of this TIP. A suggested explanation of the approaches to indemnity is provided as follows:

Market Related Estimate

Market related value is the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, after proper marketing, wherein the parties had each acted knowledgeably prudently and without compulsion.

This may be assessed using the sales comparison approach, income approach or the depreciated replacement cost approach as appropriate.

The assessment excludes any land and will be the added value that the assets give to the market value of the land (assuming that, if appropriate, the property is leased at market rental). Should the insured wish to have an indemnity estimate considering other factors such as actual income, then this must be stated by the valuer. This situation may arise for property which is over or under rented and where the client specifically requires rent recognition. Furthermore, should the client wish to have an indemnity estimate reflect economic value lost, then this should be stated by the valuer, along with a clear explanation as to how the Indemnity Value has been derived under this specific method.

For plant and machinery, personal property and loose chattels; market related value equates to the cost of a second-hand equivalent asset plus the (un-depreciated) cost of installation and commissioning (if applicable), as at the date of valuation.

However, the actual loss to the insured may differ from the market value of the asset (refer to Falcon v State Insurance 1975). Where a Market Related Estimate is provided, and the Member considers that this figure may not be consistent with the actual loss, a clear statement noting any potential disparity should be provided in the scope of work/report accompanying the Insurance Form.

Depreciated Replacement Cost (DRC)

The commonly used definition is included on the form. DRC is the current cost of replacing an asset with its modern equivalent less deductions for age and physical deterioration. The value does not allow for economic obsolescence (if any).

For plant and equipment, DRC also considers technological and functional obsolescence. The value does not allow for economic obsolescence (if any).

<u>DRC for Replacement Policies</u>

This estimate is required by most insurers to consider whether they will offer replacement insurance on assets which are near the end of their useful life. As the DRC may bear little relationship to the market related value of the building or the true insurable "indemnity value" as defined by case law, a clear statement noting the potential disparity between both methods should be provided in the scope of work/report accompanying the Insurance Form. It is also for this reason that this approach may not be suitable for application in case of a claim.

<u>DRC for assessing Fire and Emergency Levies</u>

DRC is also commonly relied on for the purposes of calculating Fire and Emergency Levies. When provided for this purpose, the act allows several items to be excluded from the assessment. These are detailed in Section 47B (third schedule) of the Fire Services Act 1975. If provided for this purpose, It is recommended that members qualify the documented Indemnity Value highlighting that this has been calculated for the purposes of assessing Fire and Emergency Levies only.

A2.12 Inflation Provision (Indemnity)

If cost inflation is likely to exceed the depreciation over the insurance period, (usually one year) an allowance for indemnity inflation is necessary. Some asset classes, for example, computer equipment, are unlikely to experience cost inflation more than depreciation over the same period, but indemnity inflation is common for buildings and other assets that depreciate slowly.

A2.13 Functional Replacement Cost

Functional Replacement Cost is the estimated cost required to replace all assets with new assets that perform similar tasks but under optimum current design and layout conditions with capacity requirements not greater than currently available.

This would apply to assets unlikely to be reinstated to the same extent, or to the same design or construction material as existing. This would be required when demand necessitates a smaller or different asset due to changes in technology, economics, and other factors. Examples could be a dated, two-level, freezing works, which would better be replaced by a single level structure, through to a two-story retail/office building in a district where there is no demand for first floor office space and the ground floor retail would therefore likely only be replaced.

Members should consult with clients prior to assessing on this basis.

A2.14 Demolition Estimate

This normally assumes that the total asset to be demolished has been damaged beyond repair. The Demolition Estimate covers the cost of demolition and removal as debris of the asset, excluding the cost of removal of any noxious materials such as asbestos, or removal of debris on adjoining premises.

Where there is generally known presence of asbestos or similar hazardous material, (whilst excluded from the assessment) this should be noted. If allowance is required to be made for the salvage or removal of fixtures, fittings, and contents, then this should be specified and referred to in an attached letter. This could also apply to undamaged plant which must be removed from the property if considered necessary.

The Demolition Estimate does not include for shoring up any structures, either on the insured property or neighbouring properties. Furthermore, it does not include for the removal of building contents.

A2.15 Valuation Date

This is the effective date of valuation, which will usually be the date of inspection. Members should avoid statements that the value is valid for periods in the future. Only the inflation estimates may be estimated for a future period.

A2.16 Disclosures

The Valuation Report should also disclose any key assumptions and explain the reasons for the adoption of the particular methodology or methodologies utilised.

Addendum B - New Zealand Insurance Form

Name of Client: **Body Corporate No XXXX, Address of**
Assets: **XX, City**

Asset

Description: 20 level apartment/hotel tower including four basement carparking levels. Studio, one, two and three bedrooms plus penthouse unit configurations. Ground floor reception, lounge, restaurant, swimming pools, spa pool, sauna, fully equipped gym and changing room facilities.

Construction: Reinforced concrete foundations and floor slabs, steel structural frame. Exterior cladding comprises concrete block, concrete panel and 'alucobond' aluminium composite panelling with aluminium joinery and tinted glazing. Profiled steel roof. Airconditioned, sprinklers, fire alarm, CCTV security system. Tiled balconies with metal and glass balustrades. Internal walls and ceilings are plasterboard, with carpet and tile floor coverings. Good quality residential appointments. Two 13 person 1,000kg passenger lifts to all levels. Entrance Canopy. Site sealing, landscaping and signage.

Services: Underground services include 3 Phase power, Gas, Fibre optic Data & Telephone cabling, Water supply, Wastewater & Stormwater disposal.

Construction

Date: 2003

Use/Occupation: Residential – Level 5 and above, 187 residential apartments Commercial - Unit A, Office & reception; Unit B, Restaurant.

Contour: Level (1) **Soil Type:** Unknown.

Other: The Depreciated Replacement Cost has been assessed for Fire Service Levy calculation purposes only. The assessed value excludes some elements of the insured property which are exempt from the Fire Service Levy

ASSET	REINSTATEMENT ESTIMATE	REINSTATEMENT INFLATIONARY PROVISION	DEPRECIATED REPLACEMENT COST ESTIMATE	DRC INFLATIONARY PROVISION	DEMOLITION ESTIMATE
Building I Retail	$2,000,000	$160,000	$1,200,000	$60,000	$200,000
Building 2 Offices	$1,500,000	$120,000	$900,000	$45,000	$150,000
Building 2 Residential	$3,000,000	$240,000	$1,800,000	$90,000	$300,000
TOTAL (excl GST)	**$6,500,000**	**$520,000**	**$3,900,000**	**$195,000**	**$650,000**

VALUERS
SIGNATUR
E NAME

INSPECTION DATE:

INSURANCE PERIOD:

(a) *All figures quoted are exclusive of G.S.T, Finance costs, Relocation expenses and other indirect costs.*

(b) *All figures are exclusive of any allowance for land value.*

(c) *This form must be read in conjunction with the Explanations, Assumptions and Disclaimers of terms etc on the following pages.*

(d) *The information in this report has been prepared to establish insurance values and may not be used for other purposes without the written consent of the Valuer.*

(e) *All figures assume compliance with building regulations and bylaws.*

Addendum C - New Zealand Insurance Form (Domestic 'Home Policies')

Name of Client:	**XX**
Address of Assets:	**XX, City**
Asset Description:	Single level 3-bedroom residential dwelling with 2 bathrooms. Timber decking. Internal access double garaging. Detached metal clad unlined storage shed with power supply. Concrete driveway. Exposed aggregate and tile paving. Timber and concrete block fencing.
Construction:	Concrete foundations, timber weatherboard and brick veneer external walls, double glazed aluminium framed window joinery and pressed metal tile roof cladding.
Recreational Features:	Inground concrete swimming pool & associated pump equipment
Retaining Walls and Special Features:	Not Applicable
Services:	Gas, Fibre optic Data & Telephone cabling, Water supply, Wastewater & Stormwater disposal.
Construction Date:	2008
Use/Occupation:	Residential
Contour:	Level (1)
Soil Type:	Unknown

ASSET	REINSTATEMENT ESTIMATE	REINSTATEMENT INFLATIONARY PROVISION	DEMOLITION ESTIMATE
Main Building & Other Improvements	$500,000	$25,000	$40,000
Recreational Features	$60,000	$4,000	$5,000
Special Features			

Retaining walls			
TOTAL (incl GST)	$560.000	$29,000	$45,000

VALUERS SIGNATURE: NAME:

INSPECTION DATE:

(a) All figures quoted are inclusive of G.S.T

(b) All figures exclude Finance costs, Relocation expenses and other indirect costs.
(c) All figures are exclusive of any allowance for land value.
(d) This form must be read in conjunction with the Explanations, Assumptions and Disclaimers of terms etc on the following pages.
(e) The information in this report has been prepared to establish insurance values and may not be used for other purposes without the written consent of the Valuer.
(f) All figures assume compliance with building regulations and bylaws.

Definitions of Insurance Valuation Terms

The following information forms an integral part of the valuation on the preceding pages.

Name of Client:

Normally the insured

Address:

Physical location, including street address at which the assets are situated.

Asset Description:

General description giving sufficient detail to identify the range of assets encompassed in the valuation. Any exclusions should be noted.

Construction:

Includes details of the principal & ancillary structures and describes the main construction materials.

Upgrade Requirements:

Typically, it will be helpful to summarise major difference between the insured asset and the modern equivalent asset.

Age:

Estimated year of construction and dates of, or reference to any major additions and upgrades.

Use/Occupation:

Nature of main activity carried out at location. A separate schedule may be provided for multiple tenancy buildings.

Contour:

Valuer's classification of the land contour containing building and immediate yard areas:

1) Level.

2) Gentle.
3) Easy.
4) Medium.
5) Steep.
6) Other – as specified.

Subsoil Type:

As a geotechnical survey has not been undertaken the description is without prejudice and is based upon a visual inspection only.

Other Known Characteristics:

Additional information that assists in quantifying the parameters of the risk to be insured.

Reinstatement Estimate:

An estimate of the cost at date of valuation (including relevant fees) of replacing the asset with a new modern equivalent asset, including, where appropriate, the use of current equivalent technology, material, and services. This is intended as a guide for the purpose of setting insurance premiums and, unless specified elsewhere, is not based on a detailed elemental and schedule of quantities approach as would be undertaken by a quantity surveyor or costing engineer. In construction, unanticipated problems often arise, and actual rebuilding, repair or replacement costs may vary from the estimate. Geotech requirements for a replacement building may differ from those relating to the existing structure.

In the case of partial destruction, no specific allowance has been made for any additional requirements that any Council, Government, or other Authority may require as additional expenditure to upgrade, alter or amend the undamaged portion of the asset.

Reinstatement does not allow for cost escalation due to a catastrophic event causing a general or localised surge in demand for new assets or rebuilding/repairs. Where an asset has elements of an historic or heritage nature, unless otherwise specified, reinstatement does not include for reproduction of the existing asset with the original heritage features but allows for a modern asset of similar size.

Functional Replacement:

Where provided this is the estimated cost required to replace all assets to perform similar tasks but under optimum current design and lay-out conditions with capacity requirements not greater than currently available. The value of any partial loss has been disregarded in this context.

Inflationary Provisions:

This amount has been estimated based on a loss occurring on the last day of a 12-month insurance period, if appropriate.

Inflation provisions on Reinstatement and Functional Replacement estimates incorporate an allowance for the additional time required for damage inspections, demolition, preparation of new preliminary proposals and their approval by the Territorial Authority, preparation of working drawings and specifications, schedules of quantities, in addition to an estimated period of construction contract. No allowance is made for any delay due to the need to comply with the provisions of the Resource Management Act.

Inflationary provisions are future projections, based on recent trends and are given without prejudice. Inflation and in particular foreign exchange rate fluctuations affecting imported assets, are notoriously difficult to predict and the valuer cannot be responsible for any inaccuracy.

Market Related Indemnity Value:

Where provided this is an estimate of the loss that would be suffered by the insured in the event the asset was destroyed. This may be assessed using the sales comparison approach, income approach or the depreciated replacement cost approach as appropriate.

Depreciated Replacement Cost:

This cost has been calculated utilising the estimated reinstatement cost allowing for normal physical depreciation only. If relevant it also takes due note of any significant upgrades or accelerated deterioration. This method is not market based and accordingly, the value may bear little relationship to the market value of the building or the true insurable "indemnity value" as defined by case law. It is not an estimate of the loss that would be suffered by the insured if the asset were destroyed.

Demolition Estimate:

For valuation, it is assumed that 100% of the assets have been damaged beyond repair and have no salvage value.

Unless otherwise noted the Demolition Estimate covers the cost of demolition and removal of debris of the assets described only and excludes the cost of removal and disposal of any noxious materials or removal of debris from adjoining premises, unless otherwise specified.

The Demolition Estimate does not include shoring up any structures, either on the insured property, or neighbouring properties, or the removal of building contents.

Addendum D – Averaging provisions and Section 44 of *the Insurance Contracts Act*

Most insurance policies that cover property damage to buildings include "averaging provisions" which penalises policy holders for not declaring a sufficient insured value at the commencement of the policy.

For example, if an insured declares the value of an asset to be $10 million when it is $20 million, then an insurer can often rely on the averaging provision clause which means it will only pay 50% of the claim. The rationale is that the insured has only declared 50% of the value of the asset and is therefore assumed to be effectively self-insuring (or co-insuring) for the other 50%, so should only receive 50% of the claim.

The difference can be significant. As an example:

a) The insured declares a replacement value of $10 million.

b) The actual value is $20 million.

c) The asset suffers a partial loss, requiring $5 million in construction work to reinstate the building.

d) The insurer only pays $2.5 million of the $5 million expenses.

The insured is $2.5 million out of pocket.

Warning: if Members give an opinion as to the insurance value and this is less than the actual value in the event of a claim, they face significant exposure if an averaging provision applies. There are several ways for Members to mitigate this risk which should be carefully considered by each Member, given the circumstances of each instruction. Members should carefully consider imposing a strict limitation of liability clause in relation to opinions given for insurance purposes, which are effectively "added on" to valuations of market value for mortgage security purposes for instance.

D1.0 Australian Act

These "averaging provisions" and insurance policies are moderated in Australia by Section 44 of the Insurance Contracts Act.

Firstly, an insurer cannot rely on an averaging provision unless the insured was clearly informed of the provision before the contract was entered into (Section 44 (1)).

In relation to residential properties, the averaging provision only applies:

a) if the sum insured is less than 80% of the value of the property at the time the contract of insurance was entered into; and

b) any proportion is calculated by reference to 80% of the value of the property, not the full value of the property.

Using the worked example above, if you assume the property is a residential property, Section 44 moderates the position as follows:

a) The insured declares value of $10 million.

b) Value declared should be $20 million.

c) Property is damaged requiring $5 million in construction works.

d) As the sum insured is less than 80% of the value of the property, the averaging provision can apply.

e) In calculating the percentage, 80% of the total value of $20 million is used, being $16 million.

f) Percentage insured is therefore $10 million/$16 million = 62.5%.

g) Insurer pays $3,125,000 of the claim.

h) Insured is $1,875,000 out of pocket.

D2.0 New Zealand Act

Under the New Zealand, Insurance Law Reform Act 1985 the "pro rata condition of average" is excluded for policies relating to a dwelling house or any other contents thereof. Other policies may contain a pro rata condition subject to the insurer clearly informing the insured in writing of the nature and effect of the condition.