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## Launch of Property Valuation Consumer Education Campaign

IBC is pleased to announce the launch of two initiatives that aim to improve the accuracy of the property valuation process for home insurance: Best Practice Guidelines for Insurers and a web-based education campaign that directly targets consumers.

These two initiatives are the culmination of months of hard work and cooperation by a diverse group of insurers and insurance representatives participating in IBC's Property Valuation Working Group. The group developed the resources described below through broad consultations over the past year with insurers, brokers, agents, property appraisers and property valuation software vendors.

Both initiatives are solid steps toward improving the accuracy of home valuations for insurance consumers.

### Best Practice Guidelines: Habitational Insurance Valuations

There are many complex factors that affect the accuracy of cost estimates for rebuilding homes. IBC's property valuation Best Practice Guidelines for Insurers are intended to provide insurers with precise information about topics that are critical to the accurate estimation of replacement value (e.g., training of individuals who perform valuations, use of software tools, consumer education).

The guidelines provide practical advice with respect to the roles and responsibilities of insurers and their expectations of other principal stakeholders in the habitational valuation process, with the aim of ultimately improving the accuracy of the process. This document is attached for your information.

### Consumer Education Campaign

Of the many factors that affect the accuracy of the property valuation process, lack of consumer knowledge about the factors that affect the replacement value of their homes is significant. As of today, a comprehensive suite of consumer-friendly information about home replacement cost will be available on IBC's website at this link: [http://www.ibc.ca/en/Home\\_Insurance/Home\\_Insurance\\_Explained/ITV.asp](http://www.ibc.ca/en/Home_Insurance/Home_Insurance_Explained/ITV.asp). The page includes FAQs and a colourful, interactive home assessment checklist to help homeowners provide accurate information to their insurance representative. Non-member companies are invited to link to this property valuation web content from their own company websites. This will help disseminate the materials to consumers and help ensure that the industry as a whole benefits from the results of the working group's efforts.

On May 3, IBC launched an online promotion that features animated banners on various websites including HGTV Canada, Style at Home and Metro News to drive consumers to [ibc.ca](http://ibc.ca) for property valuation content. The engaging banner ads mimic the hand-drawn animated style of IBC's popular "You Wanted to Know" advertising campaign from 2008. As well, a new animated spot, related to home valuation, has been created and added to the "You Wanted to Know" rotation. The spot will run during an IBC-sponsored segment on HGTV during its "Reno Thursdays" programming.

Although all agree that there is no perfect solution to the problem of inaccurate valuations, this initiative is a solid step toward improving the accuracy of home valuations for insurance consumers.

Don Forgeron  
President & CEO  
Insurance Bureau of Canada

Cc: Barbara Sulzenko-Laurie, Vice-President, Policy, IBC

## **Best Practice Guidelines for Insurance Companies**

### **Habitational Insurance Valuations**

#### **INTRODUCTION**

*This document outlines best practice guidelines for insurance companies with respect to their roles, responsibilities, and expectations for the other principal stakeholders in the valuation process for habitational insurance.<sup>1</sup>*

*These guidelines were developed by a diverse group of insurers, brokers and agents, with input from property appraisers and property valuation software vendors. The guidelines are based on the participants' factual knowledge of the property valuation process. It is believed that these best practices can help improve the accuracy of property valuations.*

*IBC will engage relevant stakeholders within a year after the release of the best practices to review and evaluate these guidelines. This review will also focus on assessing the relative success of the industry's consumer education activities and identifying potential future areas for communication.*

#### **BEST PRACTICES**

As a best practice, insurers should:

##### **Manage Valuation Risk Exposure**

- Maintain records and carry out annual reviews/evaluations of their own company's individual experience with respect to different valuation tools to assess their accuracy.
- Communicate to intermediaries which tool(s) are acceptable for use, based on the insurer's analysis of the accuracy of the different tools.
- Adopt any updates or version releases to the valuation tool(s) as soon as possible.  
As a best practice:
  - Minor tool updates should be adopted within 30 days of the release date specified by the software vendor;
  - Tool version releases should be adopted within 90 days from the release date specified by the software vendor.

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<sup>1</sup> Insurance companies are under no obligation to follow these guidelines and they are free to adopt whatever valuation guidelines they deem appropriate. Their business relations with the Insurance Bureau of Canada (IBC) or its members will not be affected if they do not follow these guidelines.

- Establish criteria for the ordering of appraisals and communicate these to intermediaries. These criteria should be applied consistently.
- Establish tests for the reasonableness of valuations and communicate these to intermediaries (e.g. square footage criteria).
- Establish a quality assurance process for scrutinizing valuations of new business and new risks/locations. Take appropriate action where the valuation does not appear to be reasonable (e.g., requisition an appraisal or discuss the valuation with intermediaries and/or sales staff).
- Establish and regularly review a timetable for the re-valuation of insured properties in association with intermediaries and/or sales staff. Ideally valuations should be conducted annually, but as a best practice valuations should be conducted at least every five years.
- Share anonymized total loss data with software vendors using appropriate documentation and agreements, wherever possible, to allow them to undertake studies evaluating the accuracy of their tool(s).
- Engage in discussions with intermediaries or sales staff, where applicable, to ensure that where adopted, the best practices are implemented in as smooth a manner as possible.
- Ensure that any tools approved by an insurer are consistent with the best practices.
- Where available, utilize technology and/or data sources that have the potential to improve the accuracy of home-related information on which valuations are based.

### **Communicate Insurer Expectations**

#### **Clearly communicate insurance company expectations to SOFTWARE VENDORS, with respect to the following:**

- The provision of training, which should incorporate examinations, to ensure that trainees possess sufficient competency to conduct an accurate valuation. The same training and examinations should be offered to both insurers and intermediaries. Direct distribution companies may wish to work with vendors to establish training and examinations that integrate with their software systems.
- The provision of help manuals, "frequently asked questions" documents, as well as an easy to understand glossary of construction terminology as a quick reference guide for sales staff and intermediaries using the tool(s).

- The continual refreshment and updating of construction cost-related data within the tool(s), and transparency with insurers around the frequency and quality of this updating process.
  
- Setting the tools so that the following data fields are filled in (including name and street address/postal code)<sup>2</sup>:
  1. Year built;
  2. Total square footage (finished/living area, not including basement);
  3. Use (e.g. single or multi-family);
  4. Style (e.g. bi-level or tri-level);
  5. Number of stories;
  6. Foundation type;
  7. Finished basement (including percentage finished);
  8. Exterior wall finish;
  9. Material types (e.g. floor coverings, ceiling or wall surfaces);
  10. Number of above and below-grade kitchens and quality of finishes;
  11. Roof material types;
  12. Number of bathrooms;
  13. Garage/carport or other attached structures (identifying size);
  14. Interior wall height;
  15. Special access (e.g. island, remote/northern location, etc.).
  
- Incorporate reasonable values reflecting local circumstances within the tool's valuation algorithm for the following features<sup>3</sup>:
  - Contractors' overhead and profit;
  - Architect fees;
  - Demolition and removal fees;
  - Premium wages.

**Clearly communicate insurance company expectations to INTERMEDIARIES, with respect to the following:**

- Inputting of the 15 fields listed above, as a minimum best practice, including any special features of the property of which the intermediary is aware.
  
- Completion of a vendor-provided training course to obtain a certificate of competency for:
  - Any new staff conducting a valuation;
  - Existing staff where they are adopting valuation software offered through a different vendor; or,
  - Existing staff where they are adopting new product versions of software for which the brokerage already possesses a product license.

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<sup>2</sup> Where no such field exists within a tool, the software vendor need not include it.

<sup>3</sup> Where property appraisal companies utilize tools to support their work, they may require greater flexibility in the ability to manipulate these features within the tools.

- The use of a specified tool or tools for each insurer's book of business, and the need to communicate this tool choice to the insurer<sup>4</sup>.
- Utilize the most up-to-date version of the tool of choice. Intermediaries should adopt any version updates to the valuation tool(s) no later than 90 days from the release date specified by the software vendor.
- New valuations may be required by carriers when submitting new business and new risks (e.g. new location on an existing policy).
- In addition to the expectation that intermediaries will comply with the insurer's re-valuation expectations, intermediaries should consider industry practices to inquire of policyholders whether material changes, including renovations, have been made to the property.
- Intermediaries should support carriers to ensure regular re-valuations are undertaken in accordance with their specified timelines, at least every five years.
- Require documentation of customer sign-off or verbal attestation as to the accuracy and completeness of the information about the property that is provided to the intermediaries.
- Where the intermediary possesses a website, imbed an active link to valuation related information listed on the website(s) of IBC and/or the relevant provincial brokers association(s).

### **Consumer Education**

- Educate consumers on valuation by including information relative to the purchase of habitational insurance on the company website (with links to other relevant websites) and, where feasible, as an insert to annual renewal documents.
- The content of insurer messaging to consumers on valuation should include the following:
  - The importance of protecting the homeowner's most valuable investment.
  - The difference between home resale value and property rebuilding cost, and what this means for the value of insurance that is required.
  - The information that consumers need to know about their home when they apply for habitational insurance.
  - Where consumers can find information about their home (e.g. the municipal property tax assessment) and insurance (e.g. company

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<sup>4</sup> Intermediaries should communicate to carriers any use of specialized tools for certain risks (e.g. high value homes, mobile homes, condominiums, etc.).

websites or websites of IBAC or the relevant provincial brokers association(s)).

- The importance of reporting renovations or upgrades that may impact the value of the home.
- What is and is not covered in a standard policy – to assist consumers to make informed choices about their insurance needs (e.g. when the value of personal property such as jewelry and furnishings is excess to the standard policy limits or when the extra cost of meeting new building by-laws is not recoverable).
- Develop an industry advisory communication, and determine the most appropriate method of distribution to consumers (working with intermediaries where applicable), for the purpose of:
  - Providing homeowners with key valuation-related information;
  - Supporting the consumers in validating key home-related information within the best practice timelines specified by the insurer; and,
  - Encouraging homeowners to incorporate their updated home-related information in the next discussion with their insurance professionals.