

intelligentai

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INTELLIGENT

REBUILD COST

**UNDERINSURANCE IN COMMERCIAL PROPERTY.  
THE HIDDEN CURSE OF INCORRECT REBUILD VALUATIONS**

Under-insurance is a key global challenge in property owners and insurers, with up to 80% of properties under-insured by more than 50%.

The Intelligent Rebuild Cost Platform, from Intelligent AI, automates the rebuild cost validation process for Insurers, Brokers, Chartered Surveyors and property owners, delivering faster and higher accuracy portfolio valuations at a much lower cost to significantly reduce portfolio exposure for insurers and brokers, and ensuring that property owners are fully covered in the event of a claim.

By bringing together open data, proprietary data, building materials cost data, artificial intelligence, data analytics and satellite image analysis, we can now deliver valuations across 100% of portfolios quickly and accurately, and at a much lower cost.



**UP TO 80% OF COMMERCIAL PROPERTIES  
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# Executive Summary

This whitepaper explores the issue of underinsurance in commercial property insurance, focusing on the impact of incorrect rebuild cost valuations. It highlights that a significant portion of commercial properties are underinsured by at least 50% (approximately 80%), leading to potential financial risks for both insurers and property owners.

Additionally, the rising construction supply chain costs further exacerbate the problem, making accurate valuation crucial. We introduce the Intelligent Rebuild Cost platform from Intelligent AI, a solution that automates the rebuild cost valuation process, providing accurate reinstatement values and portfolio assessments to effectively address the challenge of underinsurance

## Introduction

Commercial property insurance plays a vital role in safeguarding businesses against unexpected property damages or losses. However, recent studies indicate that a staggering 80% of commercial properties are underinsured by at least 50%. This whitepaper explores the reasons behind underinsurance and the consequences of incorrect rebuild cost valuations in the commercial property insurance sector.

## Underinsurance

Underinsurance occurs when the insured property's declared value is insufficient to cover the full cost of rebuilding or reinstating the property in the event of a claim. This problem arises due to several factors, such as outdated valuations, inaccurate assessments, and the dynamic nature of construction supply chain costs.

Underinsurance often stems from property owners underestimating the potential risks and costs associated with rebuilding their





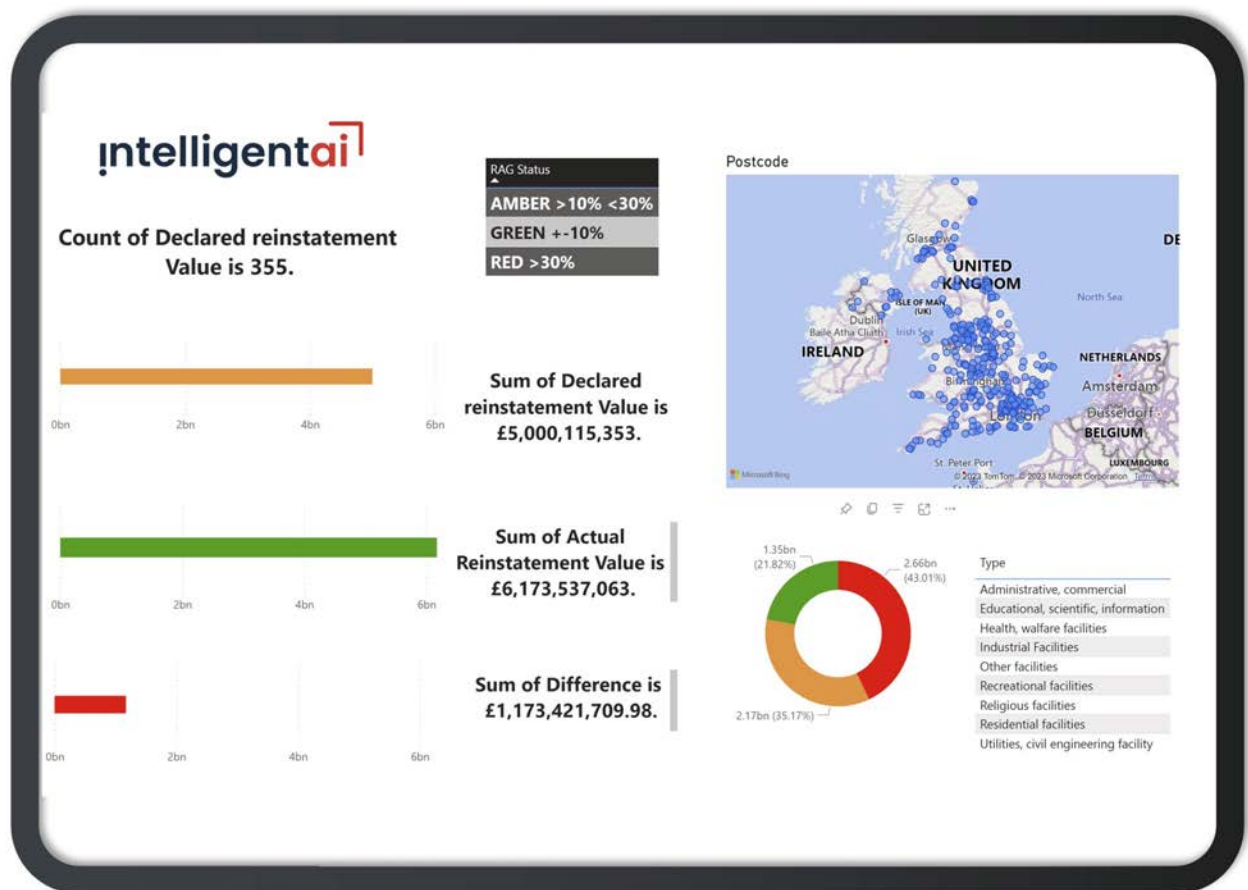
their properties. Outdated valuations can also lead to inaccurate coverage, especially when properties undergo renovations or improvements that change their overall value. Additionally, lack of awareness about the fluctuations in construction supply chain costs contributes to undervaluing properties.

Moreover, some property owners may deliberately under-report property values to reduce insurance premiums, without fully comprehending the consequences they may face if a disaster occurs. Insurance policyholders might overlook the importance of regular property re-evaluations, which are necessary to account for market changes, inflation, and other economic factors.

## **Impact of incorrect rebuild cost valuations**

Incorrect rebuild cost valuations can have severe repercussions for both insurers and property owners. Insurers may offer lower premiums to attract clients, but when disaster strikes, they face higher portfolio exposure, leading to substantial losses. On the other hand, property owners may receive lower payouts during a claim, hindering their ability to recover fully and potentially forcing some businesses to shut down.

When insurers underestimate rebuild costs, they face a higher number of claims that exceed the insured amount. This leads to financial strain and may even threaten the stability of insurance companies.



In a recent study by Intelligent AI of 355 properties, ranging from £1m to £30m, the declared values of the client portfolio was £5bn, when in fact the accurate rebuild valuations should have been £6.17bn. So, the portfolio was £1.17bn underinsured, with 45% of the portfolio being over 30% underinsured.

## Insurance Times Study by Charterfields

Another recent study by valuation specialists Charterfields, published in July 2023 in Insurance Times, found that declared reinstatement costs were insufficient for 88% of buildings and civil works. In total, the firm found a gap of £2.2bn between the declared values at locations it surveyed (£6.3bn) and the values it arrived at through its assessments (£8.5bn). Some 36% of these locations – totalling 414 – were underinsured by more than 50%, with a further 20% underinsured by 25% to 50%



Furthermore, underinsurance affects the overall insurance industry's stability, as repeated losses and inadequate coverage lead to higher premiums for all policyholders. This situation creates a challenging environment for businesses, making it more difficult for them to obtain affordable and adequate coverage.

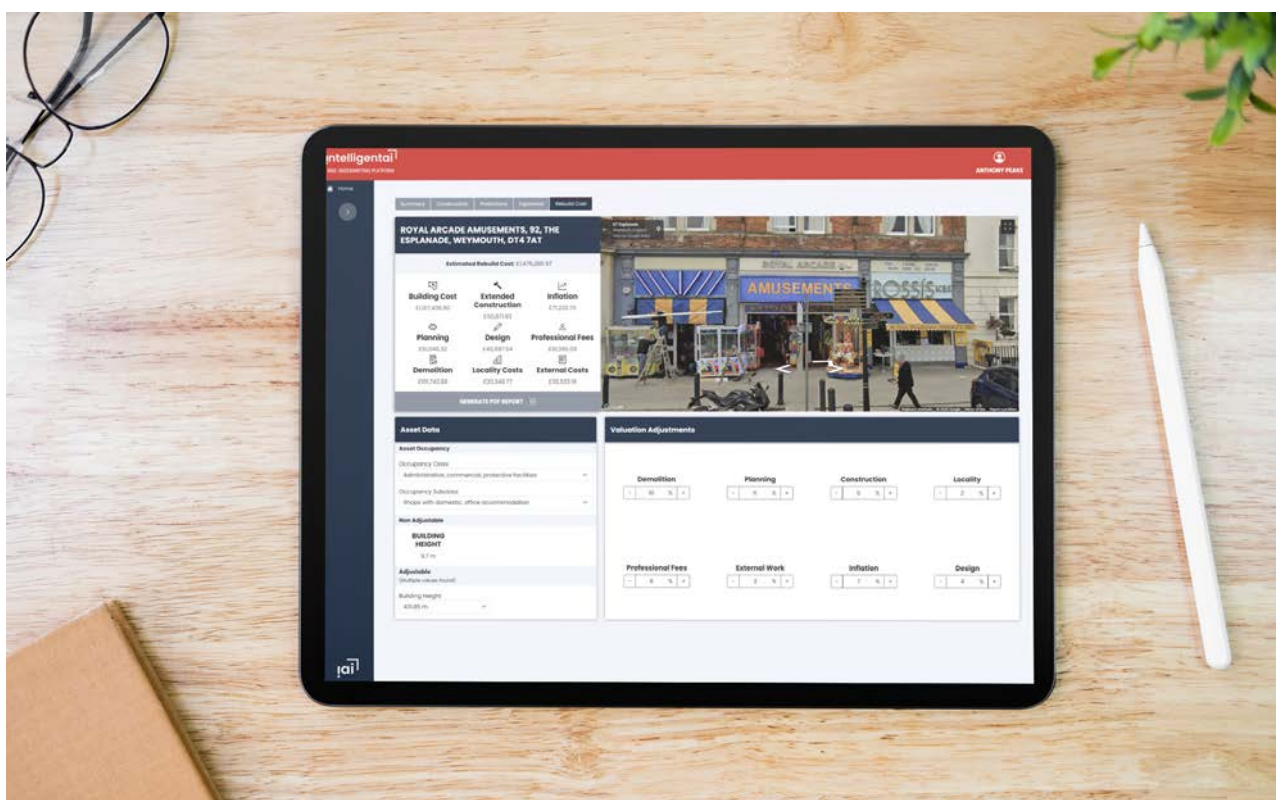
## Escalating construction supply chain costs

In the last 12 months, construction supply chain costs have surged by 20%, posing significant challenges to accurate rebuild cost assessments, according to the Royal Institute of Chartered Surveyors. Fluctuations in raw material prices, labour costs, and other supply chain disruptions contribute to the uncertainty surrounding property valuation.

The construction industry is highly susceptible to economic fluctuations and external factors, such as natural disasters, political events, and pandemics. These variables impact the prices of building materials, transportation costs, and labour expenses, all of which are crucial components of accurate rebuild cost valuations.

For example, the sudden increase in demand for construction materials after a natural disaster can cause prices to skyrocket. Additionally, geopolitical events can disrupt the availability of certain materials or lead to trade disputes, affecting their costs. The COVID-19 pandemic has demonstrated how unforeseen events can disrupt global supply chains and escalate costs in various industries, including construction.

As a result, traditional valuation methods that rely on historical data may become obsolete in predicting accurate rebuild costs. These challenges highlight the need for innovative solutions that incorporate real-time data to ensure up-to-date and precise property valuations, such as those used in the Intelligent Rebuild Cost platform from Intelligent AI.



## The Intelligent Rebuild Cost platform

To combat underinsurance and improve the accuracy of rebuild cost valuations, the Intelligent Rebuild Cost platform from Intelligent AI has emerged as a groundbreaking solution. This platform automates the entire rebuild cost valuation process, incorporating up-to-date data on construction supply chain costs, labour rates, and building materials. The Intelligent Rebuild Cost platform is a sophisticated software package that integrates machine learning algorithms, data analytics, and artificial intelligence to provide precise rebuild cost estimates. It continuously collects and analyses data from various sources, including construction materials, and economic indicators, to ensure the most current and accurate information.

The platform's algorithms take into account various factors, such as the property's location, size, age, construction type, occupancy, and the latest construction cost trends. By using real-time data, the Intelligent Rebuild Cost platform minimises the risk of underinsurance and enables insurers and property owners to make more informed decisions about coverage and claims.

The Intelligent Rebuild Cost platform is a cross-industry supported solution that has recently come out of Lloyd's Lab and has been supported by insurers, brokers, property owners, and leading chartered surveyors.

"The Intelligent Rebuild Cost platform that Intelligent AI is a key tool to ensuring that property owners and brokers present values accurately as well as insurers consider the appropriate adequacy of premium charged".

David Jones  
Director of Underwriting, Property  
& Packaged UK Insurance - QBE



"In a world of inflation and increased construction cost rebuild cost valuations creates severe underinsurance issues.

By using the Intelligent Rebuild Cost platform from Intelligent AI underinsurance issues are not only addressed but also prevented".

Johan Berg - Gallagher



"Underinsurance has been exacerbated recently, due to inflationary pressures, where construction costs increasing by up to 20% in the last year".

"The Intelligent Rebuild Cost platform from Intelligent AI should give insurers and brokers more accurate costings across their property portfolios".

Adrian Guttridge  
Corporate VP  
- WNS Global Services



"The Intelligent Rebuild Cost platform from Intelligent AI is a great example of innovation within our industry. Leveraging multiple data sets, including satellite, to help insurers and property owners build fast and accurate costings across their property portfolios".

Ben Harris  
Director - KPMG



"Working with Intelligent AI and understanding more about their Rebuild Cost platform has created exciting insight to understanding more around rebuild cost valuations.

Looking forward to working with the Team as the platform further develops".

James Brown  
Innovation Analyst - TMK



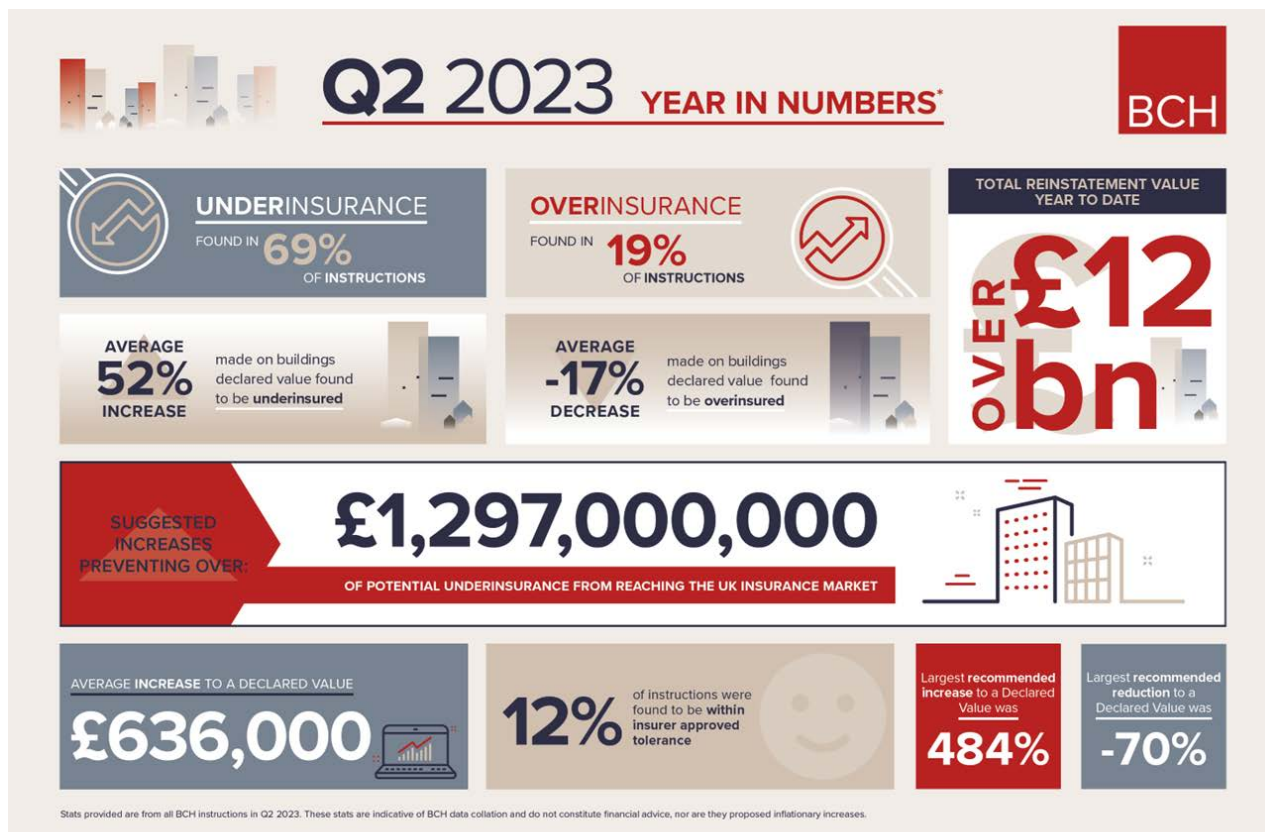
## Benefits for property owners

For property owners, the platform ensures that their properties are adequately insured, reducing the risk of being underinsured. In the event of a claim, they receive fair payouts, facilitating a quicker and smoother recovery process.

The Intelligent Rebuild Cost platform empowers property owners to make informed decisions about their insurance coverage. By obtaining accurate rebuild cost valuations, property owners can secure appropriate insurance policies that cover potential reconstruction expenses fully. This minimises the financial burden on property owners in the aftermath of a disaster.

Additionally, the platform's real-time data updates assist property owners in staying informed about market changes that may affect their insurance needs. Regular updates and alerts ensure that property owners can adjust their coverage accordingly, guaranteeing they remain adequately protected at all times.

**A recent study by leading chartered surveyors BCH found underinsurance in 69% of properties, with an average underinsurance of £636,000**



## Benefits for insurers

Insurers can leverage the Intelligent Rebuild Cost platform to enhance their risk management strategies. By offering accurate reinstatement values on individual properties or portfolios of millions of properties, insurers can assess their portfolio's true exposure, enabling them to set appropriate premiums and reduce potential losses.

With the platform's dynamic and up-to-date valuation system, insurers can identify high-risk properties that are inadequately insured. This knowledge allows them to adjust premiums based on the actual risk, ensuring a fair and sustainable pricing structure, and to provide clients with their own portfolio assessment dashboards. As a result, insurers can mitigate potential financial losses associated with underinsurance while maintaining competitiveness in the market and delivering better customer engagement.

The Intelligent Rebuild Cost platform also streamlines the claims process for insurers. By providing precise rebuild cost estimates, the platform expedites claims settlement, reducing administrative costs and enhancing customer satisfaction. Timely and fair payouts contribute to a positive reputation for the insurer, encouraging client retention and attracting new business.

## Benefits for Brokers

In the dynamic landscape of commercial property insurance, brokers play a pivotal role in connecting property owners with insurers and facilitating comprehensive coverage. The Intelligent Rebuild Cost platform offers several significant benefits to brokers, enhancing their capabilities and ensuring they can provide optimal service to their clients.

- **Enhanced client relationships**

By utilising the Intelligent Rebuild Cost platform, brokers can offer their clients accurate and up-to-date rebuild cost valuations. This empowers brokers to build stronger, trust-based relationships with their clients by demonstrating their commitment to ensuring adequate coverage and protecting their clients' best interests.

- **Streamlined risk assessment**

Brokers can leverage the platform's sophisticated data analytics and AI capabilities to conduct thorough risk assessments for their clients. The real-time data updates on construction supply chain costs, labour rates, and building materials allow brokers to identify potential risks more effectively, offering tailored insurance solutions that precisely match their clients' needs.

- **Competitive edge**

In a competitive insurance market, brokers need to differentiate themselves by providing added value to their clients. The Intelligent Rebuild Cost platform offers brokers a unique selling proposition, enabling them to stand out from the competition and attract new clients.

- **Time and cost efficiency**

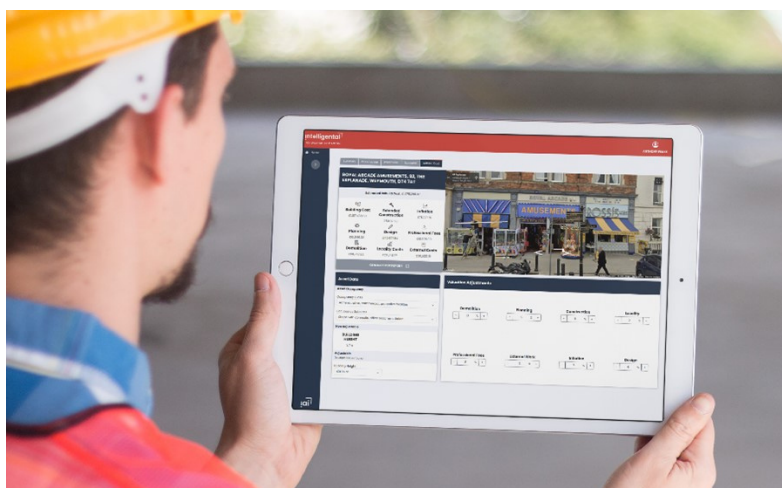
The platform's automation of the rebuild cost valuation process saves brokers valuable time and resources. Brokers can focus on client relationships and business development, knowing that the platform handles the complex and time-consuming task of property valuation.

- **Data-driven insights**

The Intelligent Rebuild Cost platform equips brokers with data-driven insights that help them make informed decisions. They can access comprehensive reports and analyses, enabling them to offer well-informed advice to clients and better understand market trends.

- **Risk mitigation**

By ensuring accurate rebuild cost valuations and reducing the risk of underinsurance, brokers can help clients avoid financial hardships in the event of a claim. This risk mitigation approach enhances clients' confidence in their insurance coverage and reinforces the broker's reputation as a trusted advisor.





## Benefits for chartered surveyors

Chartered surveyors play a crucial role in accurately assessing the value and condition of properties. Whilst digital rebuild valuations will not replace physical site visits for complex properties, the adoption of the Intelligent Rebuild Cost platform offers numerous benefits to chartered surveyors, elevating their expertise and enabling them to deliver more precise and informed assessments, much more quickly, across wider portfolios.

- **Enhanced valuation accuracy**

The Intelligent Rebuild Cost platform equips chartered surveyors with up-to-date data on construction supply chain costs, labour rates, and building materials. This comprehensive information enhances the accuracy of their property valuations, ensuring that the rebuild cost assessments reflect the current market conditions.

- **Time efficiency and productivity**

By automating the rebuild cost valuation process, the platform streamlines the workflows of chartered surveyors, saving them valuable time. This efficiency allows them to handle more on-site valuation assignments and focus on other critical aspects of their work.

- **Data-driven decision making**

The platform provides chartered surveyors with data-driven insights and analytics. These valuable insights enable them to make well-informed decisions when evaluating properties, taking into account factors, such as location, construction, occupancy, and market trends.

- **Increased professional credibility**

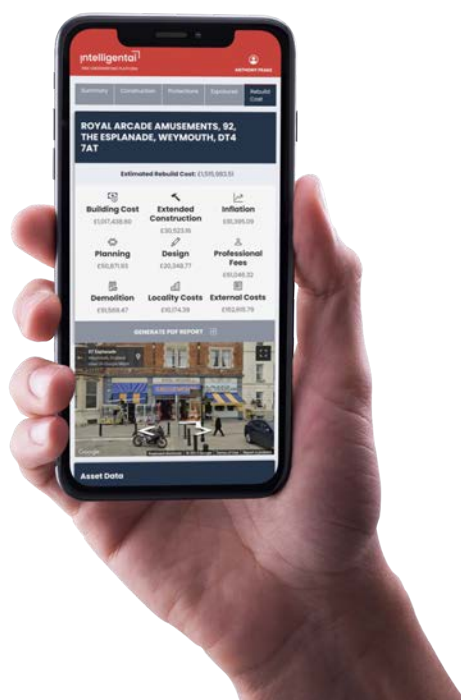
The accurate rebuild cost valuations facilitated by the Intelligent Rebuild Cost platform enhance the professional credibility of chartered surveyors. Clients can rely on their expertise, knowing that their property valuations are based on the latest data and industry standards, and that they can get updated valuation more frequently at lower cost.

- **Adapting to market changes**

The construction industry and property market are subject to constant changes, including fluctuations in material costs and labour rates. The platform's frequent updates allow chartered surveyors to adapt to these market changes quickly. They can provide clients with timely and relevant information, guiding them in making well-informed decisions.

- **Mitigating errors and disputes**

Accurate rebuild cost valuations minimise the risk of errors and disputes between insurers, property owners, and other stakeholders. Chartered surveyors using the platform can confidently stand by their assessments.



## Conclusion

Underinsurance in commercial property insurance poses a significant threat to insurers, property owners, and brokers. Incorrect rebuild cost valuations, coupled with rising construction supply chain costs, exacerbate the issue. The Intelligent Rebuild Cost platform from Intelligent AI offers a comprehensive solution, automating the valuation process and providing accurate reinstatement values.

The Intelligent Rebuild Cost platform also revolutionises the way chartered surveyors conduct property valuations in the commercial property insurance sector, with enhanced valuation accuracy, time efficiency, data-driven decision-making, increased professional credibility, adaptability to market changes, and the ability to mitigate errors and disputes.

This platform empowers insurers, property owners, chartered surveyors, and brokers to address underinsurance effectively and secure a resilient future for the commercial property insurance industry. For brokers and insurers, the platform presents unique advantages, including extensive portfolio exposure analysis capabilities.

The Intelligent Rebuild Cost platform represents a strategic step for insurers and brokers to thrive in the ever-evolving insurance landscape and contribute to the overall industry's stability and growth.

