

# Global Risk LLC Newsletter

February 2012



**We are passing on excerpts from a letter we recently received from Travelers.**

**While the current market value of buildings may be lower,**

**The cost to rebuild may be higher.**

Recent trends like the increasing frequency and severity of weather events and skyrocketing construction costs underscore the significance of insuring to replacement value. So does the fact that an estimated 75 percent of commercial businesses are underinsured by an average of 40 percent or more. Simply said, underinsurance can greatly impair, or even bankrupt a business trying to recover from a major disaster.

## **Rebuilding can be pricey**

In recent years, the insurance industry has experienced devastating weather events, many unprecedented and unexpected. In 2011 alone, the U.S. experienced nearly \$38 billion in insured losses, and experts predict that severe weather will likely continue.

Add to that, increasing building costs. As communities rebuild, the demand for building materials and labor has intensified, driving up prices. For example, in the 15 months between the second quarter 2010 and the third quarter 2011, the following materials rose significantly:

>Copper Pipe +26.5%      >Drywall +5.5%  
>Steel Rebar +15.8%      >Plywood+11.0%  
>Structural Steel +13.0%      >Lumber  
+11.7%

Bottom line, construction costs are increasing and buildings constructed just two years ago cannot be rebuilt at anywhere near the original cost. **It's also important to remember that insurers evaluate the cost to rebuild the property, not its current resale value.** Even though the commercial real estate market has plummeted, property insurance costs may have not followed suit because of the increasing cost to replace the property.

Review your property limits to be sure your limits are adequate to replace your property in the event of a major disaster. We are always available to discuss this with you.