

Policy Conditions/Insurance To Value (ITV) Agent Webinar

Presented by TWIA Underwriting



Purpose of Today's Webinar

Legislative Changes

- Actual Cash Value (ACV) vs. Replacement Cost Value (RCV)
- Understanding the Basics

Policy Condition Changes

- Effective January 1, 2020

Agent Impacts

- Form Changes
- Application Holds

Policyholder Impacts

- Clearer Value Upfront

RCT Express/MSB Pre-Fill Reminder

LEGISLATIVE CHANGES



Why is This Change Happening?

Current law says the type of loss settlement —replacement cost value (RCV) vs. actual cash value (ACV)—is determined at the time a claim is made.

New law says the type of loss settlement, RCV or ACV, is determined at the time a policy is issued.



RCV and ACV

Replacement Cost Value (RCV)

- What you would pay to repair or replace an item

Actual Cash Value (ACV)

- What you would pay to repair or replace an item minus depreciation.
- $RCV - \text{depreciation} = ACV$

Policyholder

- May not understand these concepts or the coverage they have purchased

Both are generally offered

- Some factors may make RCV unavailable

Have a Seat and Let's Talk RCV vs. ACV



Couch Scenario:

New couch purchased for \$2,000.00 last year

A hurricane occurred that damaged the couch

ACV Coverage is $RCV - Depreciation = ACV$

$\$2100.00 \text{ (RCV)} - \$400.00 \text{ (Depreciation)} = \1700.00 ACV

RCV Coverage: Cost to replace the couch

$\$2100.00$

Look Up! Now Let's Look at a Roof Claim.



Roof Scenario:

Roof cost \$11,500.00

A hurricane occurred that damaged the roof

ACV Coverage is $RCV - Depreciation = ACV$

$\$11,500.00$ (RCV) - $\$1288.00$ (Depreciation) = $\$10,212.00$ ACV

RCV Coverage: Cost to replace the roof

Additional $\$1288.00$ RCC was paid once roof was replaced because RCV was on the roof.

But Wait...Don't Houses Appreciate?

- Houses, as a whole, have the potential to appreciate in value.
- However, that is a different kind of value.
- That is the market value of the home and the land.



We Are Discussing Replacement Cost Value!

How much would it cost you to
rebuild your home, including:

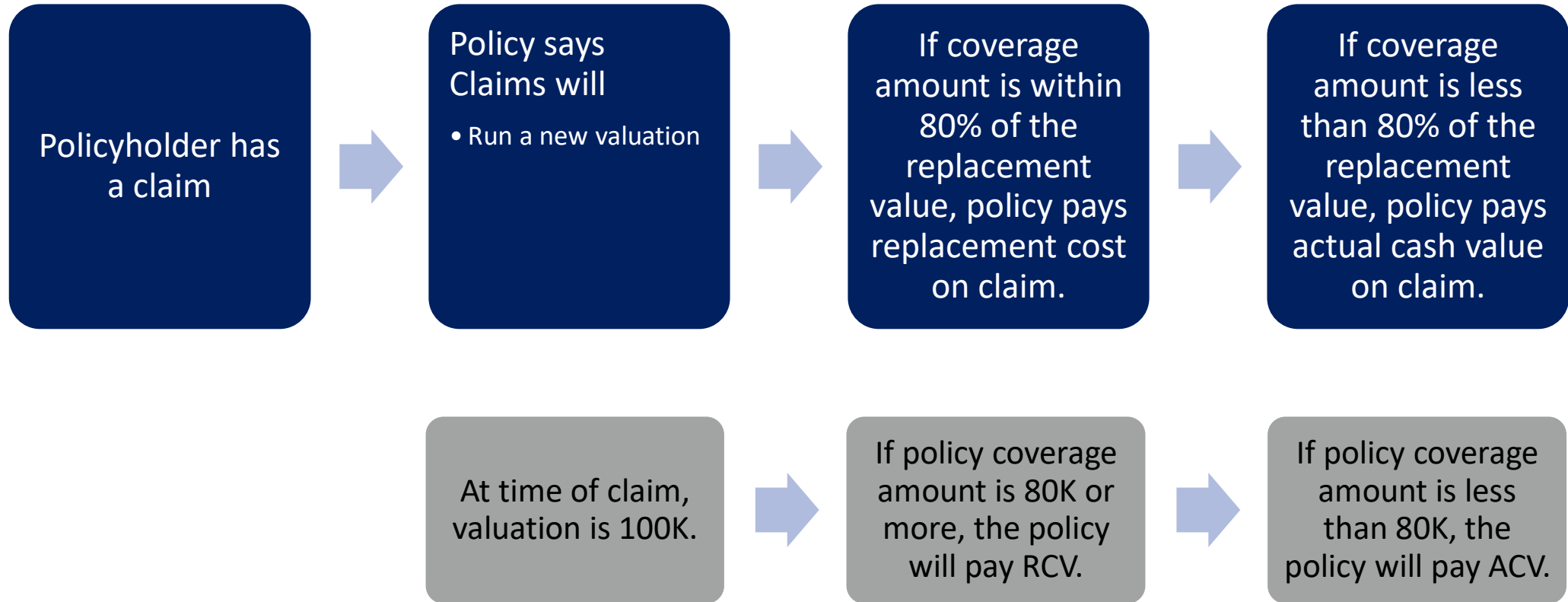
- Roof
- Windows
- Siding
- Doors



POLICY CONDITIONS CHANGES



What Happens Today?



Why Does this Create Concern for the Policyholder?



- Too many variables to know what value will be used at the time of a claim
- Policyholder may not understand the type of coverage they may have on their policy
- Valuations are occurring during a stressful time and can drastically change the claim payment, causing additional stress

What Happens On or After January 1, 2020?

All residential TWIA policies will automatically be ACV at the beginning of the application.



Throughout application process:

- If coverage amount is within 80% of the replacement value, policy is a replacement cost policy.



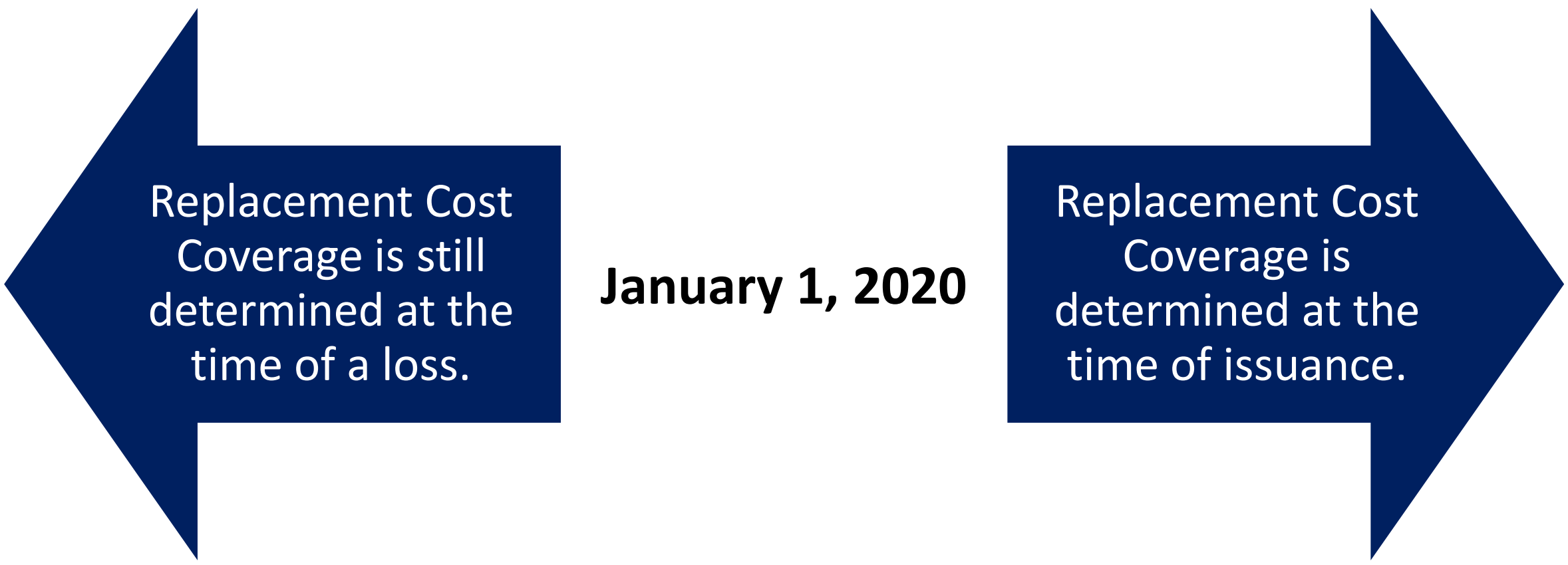
If coverage amount is less than 80% of the replacement value, policy is an actual cash value policy.



Agents can always adjust coverage amounts as desired.



Policies Effective Before and After 1/1/2020



Replacement Cost
Coverage is still
determined at the
time of a loss.

The diagram features two large blue arrows pointing towards each other, meeting at a central date. The left arrow contains text about replacement cost coverage determined at the time of a loss, while the right arrow contains text about replacement cost coverage determined at the time of issuance. The background is white with a decorative footer consisting of three horizontal bars in orange, tan, and grey.

January 1, 2020

Replacement Cost
Coverage is
determined at the
time of issuance.

AGENT IMPACTS



Residential Endorsement Changes/Additions

Forms Being Eliminated

TWIA 400

Actual Cash Value Roof
Endorsement



Forms Being Added

802-Entire Structure RCC

804-Entire Structure RCC with
the ACV Roof

Three Coverage Options for Residential Policies with Effective Dates After 1/1/2020

1. ACV coverage entire structure (when less than 80% of value)
2. RCV on structure and ACV on roof- 804 endorsement
3. RCV on entire structure- 802 endorsement



Policy Form Changes

- Dwelling Windstorm Policy
- Commercial Windstorm Policy
- TWIA 164-Replacement Cost Endorsement-Commercial
- TWIA 165-Replacement Cost Endorsement-Excluding Roof Coverings
- TWIA 365-Replacement Cost Endorsement-Personal



Policy Center Changes

- New Validation Error During Application:
- If an application has ACV coverage, and the ACV roof box is checked, an error will occur.
- This will happen because selecting the ACV Roof box is unnecessary when the policy is already calculated as ACV.

A screenshot of a web application interface. The interface has a header with a link 'Return to Locations and Risk Items'. Below the header is a 'New Activity' dropdown menu. There are four tabs: 'Coverages', 'Credits and Surcharges', 'Additional Interests', and 'Properties'. The 'Credits and Surcharges' tab is selected. Under this tab, there is a section titled 'Building Code Credit'. Within this section, the 'Actual Cash Value Roof' checkbox is checked and highlighted with a red rectangular box. Below this checkbox are two questions: 'Is the roof covering curling, cracking or missing shingles?' and 'Is the roof covering showing signs of significant deterioration?'. There are also checkboxes for 'Cosmetic Damage Exclusion for Hail Resistant Roof Credit (Form 420)', 'Surcharge for non-compliant structures (WPI-8 Waiver)', and 'Additional exception for non-compliant structures (authorized by SB1702 in'. The 'Surcharge for non-compliant structures (WPI-8 Waiver)' checkbox is also checked.

Application Holds

There will be holds on Applications submitted with a 1/1/2020 or later Effective Date until final document approval is granted by TDI.



POLICYHOLDER IMPACTS



Policyholder Impacts

Holds on Applications submitted with a 1/1/2020 Effective Date or later until final document approval is granted by TDI

Dwelling Policy Verbiage

Clarity on coverage at policy issuance versus at the time of a loss



Document Addition

Actual Cash Value Notice



Important Notice About Your Policy Coverage

This letter is intended to provide you with information to better understand your TWIA policy coverage. It is not intended to replace the insurance policy, endorsements, or guidance from your agent.

This policy only provides Actual Cash Value for one, or more, Coverage A (Dwelling) items. At this time your TWIA policy only provides Actual Cash Value coverage for one, or more, Coverage A (Dwelling) items.

As your property ages the value decreases, which is called depreciation. This depreciated value is the Actual Cash Value of the property. This means your policy may not cover the full cost of replacing your property. It will only cover the value of the property at the time of a loss event.

What Is Available: Replacement Cost Value Coverage

The cost to replace the property with something brand new is called the Replacement Cost Value. Replacement Cost Value coverage may be available to you and would cover the full cost of repairs, up to your coverage limit.

To qualify for this coverage, your property must be insured to value (ITV) at a rate of 80% or more of the full replacement cost. The Replacement Cost Value is an estimate based on information provided by your agent and obtained from independent sources.

In the example below, we compare a claim with both coverage types to demonstrate the difference in the resulting claim payments. For this example, we will consider a covered event requiring the replacement of a roof that has depreciated in value by 50%. The example also assumes the roof is replaced.

Claim Comparison by Coverage Type		
	Actual Cash Value	Replacement Cost Value
Cost to Replace Roof	\$15,000	\$15,000
Depreciation	50%	50%
Recoverable Depreciation	N/A	\$7,500
Non-Recoverable Depreciation	\$7,500	N/A
Deductible	\$1,000	\$1,000
Policy would pay	\$6,500	\$14,000

As the example demonstrates, with Actual Cash Value coverage, your policy benefits may not cover the full cost of your repairs in the event of a loss. We recommend you review your coverage amounts with your agent regularly to be sure you have the coverage amounts you need.

For more information please visit www.twia.org/itv, discuss it with your agent, or call us at (800) 788-8247.

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MSB PREFILL REMINDER



RCT Express/MSB Prefill

QV2 Tracked By: Austin, TX 75131

STWBA TE-4700403

Property Address: [Redacted]

Record Name: [Redacted]

Record Date: 9/20/19

Record Date: 9/20/19

Vehicle Expiration Date: 9/20/2019

Vehicle Coverage: \$1

Account Number: [Redacted]

Building Information

Number of Floors: 1

Style: Ranch

Roof Type: [Redacted]

Name	Year Built	Construction Type	Stories	Finished Living Area	Roof	Foundation Type
Main House	1988	Standard	1	1157 Sq Ft	100% Sh	100% Sub at Grade

Valuation Totals

Item	Value
Reconstruction Cost w/o Deduct Removal	\$188,895
Deduct Removal	\$7,721
Reconstruction Cost w/o Deduct Removal	\$188,895
Cost Data as of	9/20/19

Property Imagery

9/20

10/30/2019

Interior

Kitchen

Kitchen: [Redacted] Count: 1

Bathrooms

Bathrooms: [Redacted] Count: 2

HVAC Systems

Heating, Gas Forced Air: 100%

Central Air Conditioning, Same Details: 100%

Exterior

Roof

Roof Style/Shape: [Redacted]

Roof Color: [Redacted]

Roof Shape: [Redacted]

Exterior Walls

Stone or Frame: [Redacted]

Garages & Carports

Attached Garage, SF: [Redacted]

Porch, Deck & Screenings

Attached Garage, SF: [Redacted]

Exterior Extras

Construction Details

Thank You!



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- **TWIA Training Center-recorded webinar**
 - **Other webinars through 10/29**
 - **Another round in December-stay tuned**
 - **Automatic Renewals-Coming soon! Stay tuned for webinars in December and January**
 - **Survey coming from Go To Webinar**

Questions? Email agentservices@twia.org