

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

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 $RCV - Depreciation = ACV$

$\$2100.00$ (RCV) - $\$400.00$ (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



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

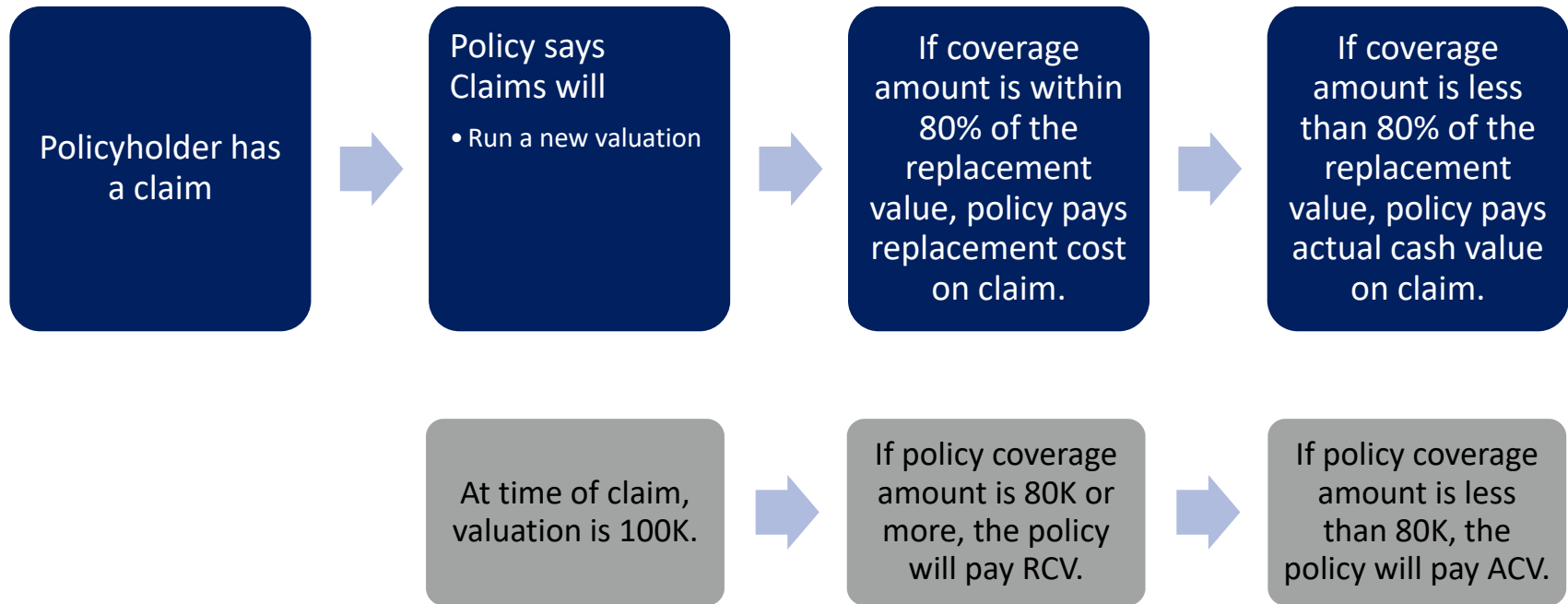
- Roof
- Windows
- Siding
- Doors



POLICY CONDITIONS CHANGES



What Happens Today?

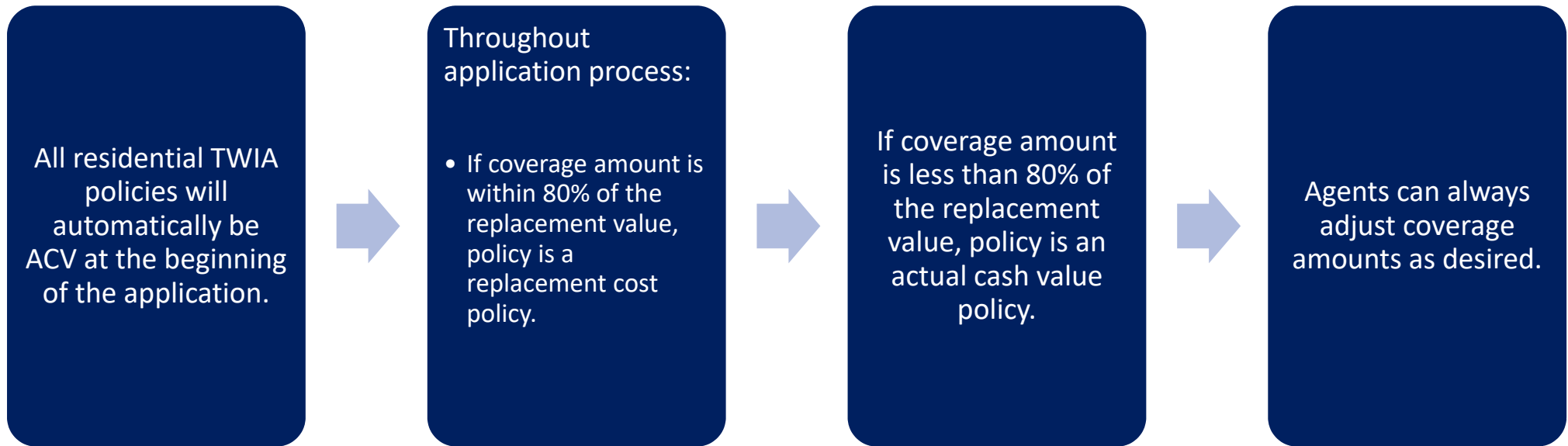


Why Does this Create Concern for the Policyholder?

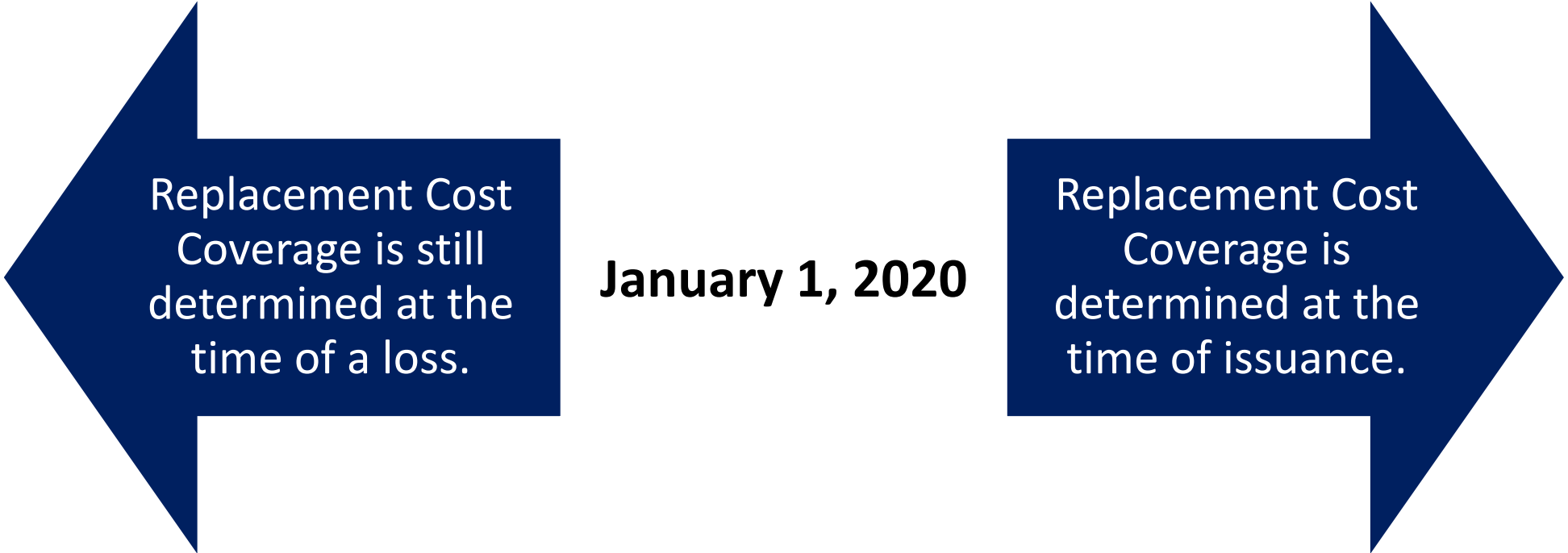


- Too many variables to know what value will be used at the time of a claim
- Policyholder may not understand the type of coverage they may have on their policy
- Valuations are occurring during a stressful time and can drastically change the claim payment, causing additional stress

What Happens On or After January 1, 2020?



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 away from a central date. The left arrow points left and contains the text 'Replacement Cost Coverage is still determined at the time of a loss.' The right arrow points right and contains the text 'Replacement Cost Coverage is determined at the time of issuance.' The central date 'January 1, 2020' is positioned between the two arrows. At the bottom of the slide, there are three horizontal bars: an orange one on top, a tan one in the middle, and a grey one at the bottom.

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 form for a policy dwelling. The form has tabs for 'Coverages', 'Credits and Surcharges', 'Additional Interests', and 'Properties'. The 'Credits and Surcharges' tab is active. Under the 'Building Code Credit' section, the 'Actual Cash Value Roof' checkbox is checked and highlighted with a red box. Below this, there are two questions about roof condition. Further down, there are 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.

Policy dwelling (Return to Locations and Risk Items)

New Activity

Coverages Credits and Surcharges Additional Interests Properties

Building Code Credit

☒ **Actual Cash Value Roof**

Is the roof covering curling, cracking or missing shingles?

Is the roof covering showing signs of significant deterioration?

☐ **Cosmetic Damage Exclusion for Hail Resistant Roof Credit (Form 420)**

I wish to apply for the following eligibility program:

☒ **Surcharge for non-compliant structures (WPI-8 Waiver)**

You are requesting to waive the WPI-8 requirement for this item. Please ensure the following conditions are met. For an item to be eligible for the waiver, at least one instance of construction must have occurred after 01/01/1988 but before 06/19/2009. Any construction instance that does not meet these criteria will be reviewed. Please note that a surcharge will be applied, and eligibility will be reviewed.

☐ **Additional exception for non-compliant structures (authorized by SB1702 in**

POLICYHOLDER IMPACTS



Policyholder Impacts

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.

Texas Windstorm Insurance Association
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P.O. Box 99090, Austin, Texas 78709-9090
(800) 788-8247/Fax (512) 899-4950

678000321_9.0.0_QA01_1_7973178: Insured

MSB PREFILL REMINDER



RCT Express/MSB Prefill

CMG Software Inc., Austin, TX 78758

STIMA TE 4790443

Property Address: [Redacted]

Tract Name: [Redacted]

Parcel Date: 8/2019

Revised Date: 8/2019

Ultimate Expiration Date: 12/2019

Setback Coverage: 30'

Resident Number: [Redacted]

Building Information

Number of Families: 1

Site Access: Front Access/Easy Access Road

Style: Ranch

Roof Type

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

Valuation Totals

Work Info	Value
Reconstruction Cost w/ Debris Removal	\$181,895
Debris Removal	\$7,721
Reconstruction Cost w/ Debris Removal	\$189,616
Cost Data as of	8/2019

Exterior

Kitchen

Kitchen: [Dropdown: Custom's Grade] 1 Count

Bathrooms

Bathrooms: [Dropdown: Full Bath] [Dropdown: Custom's Grade] 2 Count

HVAC Systems

Heating: Gas Forced Air

Cooling: Central Air Conditioning, Same Ducts

Interior Extras

Interior Specifications

Exterior

Roof

Roof Style/Slope: [Dropdown]

Roof Cover: [Dropdown]

Roof Shape: [Dropdown]

Exterior Walls

Stone or Frame: [Dropdown]

Garages & Carports

Attached Garage: 2

Porch, Deck & Screenings

Exterior Extras


Construction Details

Property Imagery

9/25 12/30/2017



Internal ITV Training

- Blocking Issues with 1/1/2020 date will go into ITV Team queue (by Jason)
 - Adding 1/1/2020 ED to those transactions
 - Will rerun transactions once we have green light on documents from TDI
 - Then address other transactions as needed that remain in queue
 - Updates to ACV Roof Activities to remove TWIA 400
 - New Activity for RVU to use when adding 804
 - New prerenewal direction ACV Roof to ensure not on 802
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- Three horizontal bars of equal width are located at the bottom of the slide. The top bar is orange, the middle bar is a light tan or beige color, and the bottom bar is a light gray color.

Thank You!



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- TWIA Training Center-recorded webinar
 - New Renewal Process-recorded webinar on the TWIA Training Center
 - Survey coming from Go To Webinar

Questions? Email agentservices@twia.org