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CEOs debate whether a single tool for estimating reconstruction costs would help solve the ITV problem

Would adherence to a single tool for estimating reconstruction costs help to resolve the insurance-to-value (ITV) issue?

Insurance company CEOs debated the point at the 89th annual convention of the Insurance Brokers Association of Ontario (IBAO), held in Toronto on Oct. 22, 2009.

George Cooke, president and CEO of The Dominion, got discussion started when he said: "The biggest problem, from my perspective, relates to the fact that you need to have one tool in order to solve this [ITV] problem."

He said an unseen problem for insurers in the ITV debate is that multiple cost estimation programs can be used to determine the reconstruction cost of a house, but the company can only set one rate. Thus, if the cost estimators differ wildly in their outcomes, that will make it more difficult to set a single rate for home insurance.

"You don't set the rate for an estimator," said Cooke, who went on to muse: "Maybe that would be part of the solution."

Charles Brindamour, president and CEO of Intact Insurance, countered that it would be impossible for an insurance company to impose a monopoly on a single cost calculator tool. He said his company was responding to the ITV issue by "trying to find guidelines that can be applied to the output of certain tools..."

Kevin McNeil, president and CEO of Gore Mutual Insurance Company, said his company has dealt with the dilemma of brokers using different cost estimators by embracing all of them. "Whatever tools [brokers] are using, we accept," he said.

Jean-Francois Blais, president and CEO of AXA Canada, said the assumption that a cost evaluator program is wrong is difficult to prove.

He said many homeowners simply don't know enough about their homes to provide good data to insurers for the purpose of estimating reconstruction costs.

"When you add the right input, you get the right output," Blais said.

And if homeowners aren't providing accurate data, he added: "It's very difficult to say [to cost estimator vendors]: 'Well, it's your model, your model is broken, it's not working properly.'"

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