INSURANCE COST ESTIMATES

Reference:	ANZVGP 104 Insurance Cost Estimates
Published Date:	28 April 2025
Effective Date:	1 July 2025 | Earlier adoption is permitted and encouraged.
Owner:	Manager Professional Standards

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Guidance Papers

Objectives

The principal objective of a Guidance Paper (*GP*) and Resource Pack (if applicable) is to clarify professional and industry processes, best practices, and procedures and to discuss their use and implementation.

A *GP* is designed to be of assistance to *Members* and those who use *Members'* services. They serve as a guide and measure of acceptable professional practice and conduct of a *Member*.

The intention of a *GP* is to:

a) provide information on the characteristics of different types of assets that are relevant to the advice.
b) provide information on appropriate practices and their application.
c) provide information that assists *Members* in exercising the judgements they are required to make in specific situations.
d) convey elements of what is considered "competent professional practice" for Australian Property Institute (*API*) *Members* and "best practice" for Property Institute of New Zealand (*PINZ*) *Members* and New Zealand Institute of Valuers (*NZIV*) *Members*.

A *GP* is not intended to provide comprehensive training, instruction or prescriptive practices and procedures, or direct that a process, professional approach, or method should or should not be used in any specific instruction or situation. Whilst a *GP* is not intended to provide comprehensive training, instruction or prescriptive practices and procedures, or direct that a process, professional approach, or method should or should not be used in any specific instruction or situation, a *GP* may also include mandatory guidance relating to statutory requirements, rules or international standards which must be adhered to by *Members*.

Member Obligations

The *Member* is responsible for choosing the most appropriate approach in a matter based upon the task and instruction. It is a matter for each *Member* to decide the appropriate practice in any situation, and if they are unclear, seek expert advice from others. *Members* have the responsibility of deciding when it is appropriate to deviate from the guidance and practices contained in a *GP*.

The *Institute(s)* do not warrant that anything contained in this, or any *GP* is the definitive or final statement on any issue. *Members* must perform their own work pursuant to their own professional expertise and experience and if required, seek expert advice from others.

Court or Tribunal Reliance

A court or tribunal may consider the contents of this *GP* to be relevant when deciding whether a *Member* acted to a standard required by law.

Currency of Publication

This *GP* is current at the time of publication, based on current case law and relevant legislation.

Enquiries

If any *Member* considers any information or advice in this *GP* to not be accurate or up to date, or wish to raise any issue for consideration arising from the contents of this *GP*, please refer this to

API contact: standards@api.org.au

PINZ/NZIV contact: standards@property.org.nz

1.0 Introduction

1.1 Scope of this Guidance Paper

The objective of this *GP* is to provide information, commentary, advice, and recommendations to *Members* providing insurance cost estimates of tangible assets, such as "destructible improvements to real property" (*destructible improvements*) and "plant, machinery & equipment" (*P&E*).

Cost estimates for insurance purposes are commonly required by clients for the following reasons:

(a) To assist in assessing the *sum insured* when purchasing general insurance products that covers loss or damage to tangible assets. This is a highly specialised area of practice, that requires considerable knowledge of important insurance concepts, which is addressed in Section 4.0 Assessments for General Insurance Purposes.

(b) To estimate the *replacement cost* of the improvements when undertaking real property valuations for mortgage purposes in Australia utilising the PropertyPRO Supporting Memorandum (*PPSM*). This is discussed in Section 5.0 Replacement Insurance Cost Estimates.

(c) In New Zealand, to provide a Summary Certificate, such as recommended by *PINZ* and *NZIV*, following changes to legislation, such as the *Fire and Emergency New Zealand Act 2017* and the *Natural Hazards Insurance Act 2023* Guidance in relation to these Summary Certificates is set out in Addendum A to C this *GP*.

1.2 Insurance Cost Estimates Are …

For the purposes of the *GP* an insurance cost estimate is the result of a calculation by a *Member* of the cost of replacing, or reproducing, the tangible asset as at the relevant/assessment date.

An insurance cost estimate may be used for the purpose of considering the insurable sum in a contract of insurance or entering into an insurance contract.

2.0 Definitions

The definitions contained below and used in this *GP* are applicable to this *GP* and have been included to assist with the interpretation and understanding of certain stated terms used within this *GP*.

Whilst a defined term used in this *GP* may also have a common meaning or interpretation, their use in this *GP* is so limited.

Where a defined term is included in this *GP* it is shown in italics.

For New Zealand *Members*, please refer to Addendum A - Legislation and Other Matters Specific to New Zealand.

Estimates for General Insurance Purposes	An insurance cost estimate of the tangible asset as requested by the client which would normally, but not always be undertaken on a reinstatement cost basis or indemnity value basis. This is further outlined in Section 4.0.
Insured	A person or entity whose interests are protected by an insurance policy.
Institute(s)	All references to *Institute(s)* mean, as the context requires, *API*, *PINZ* and / or *NZIV*.
Member(s)	An individual who is a member of the *API*, *PINZ* and/or *NZIV*.
Replacement Cost	The current cost of replacing the *insured tangible asset* with that of an equivalent asset at the same location (*situation*) providing similar function and offering equivalent utility, but which is of a current design and constructed or manufactured using current materials and techniques.
Replacement Insurance Cost Estimate	For Australian *Members*, an estimate of the *replacement cost* of the improvements to real property included in a PropertyPRO valuation report by a *Valuer* in accordance with the requirements under the 'Insurance Assessments' section of the *PPSM*.
Reproduction Cost	The current cost of recreating the *insured tangible asset* with an exact replica of the asset, at the same location (*situation*). It is the sum of all costs involved with reproducing (replicating) the asset with the same materials and specifications as the asset based on current prices.
Situation	A term used in insurance policies to refer to the specific location of the *insured tangible asset*.
Sum Insured or **Insurable Sum**	Terms used to describe the sum of all *tangible assets insured* including demolition and inflation at each *situation.*

	It is the maximum amount an insurer will pay in the event of a claim.
Tangible Asset Insured or **Insured Tangible Asset**	A term used to describe the tangible asset(s) covered under an insurance policy.
Valuer	In Australia, means a *Member* who holds the certification of CPV, CPV (Residential), RPV or CPV (P&M). In New Zealand, means a *Member* who is a Registered Valuer under the *Valuers Act 1948* or a Registered Plant and Machinery Valuer under *PINZ*.

3.0 Instructions

3.1 In Writing

Instructions to provide an insurance cost estimate should be agreed between the *Member* and the instructing party/client and be received in writing and/or confirmed in writing by the *Member*.

The instructions should clearly outline the scope of professional services requested by the client.

When instructed to conduct an insurance cost estimate, the instructions should clearly state the basis of the cost estimate; for example, *replacement cost,* functional replacement cost*, reproduction cost* or indemnity value*.*

Instructions need to be clear as to which cost estimate basis is required. While many heritage buildings would normally be insured in a *reproduction cost* basis, this must be clear in the instructions.

For Australian *Members*, the instructions for *replacement cost insurance estimates* are outlined in the *PPSM*.

There must be no ambiguity in the instructions. Where the *Member* perceives ambiguity, the instructions must be referred to the instructing party/client(s) to resolve the ambiguity.

Any variations to instructions should also be in writing and/or be confirmed in writing by the *Member*.

3.2 Accepting Instructions

Prior to accepting an instruction, the *Member* must possess the necessary skill, knowledge, experience and information to provide the insurance cost estimate on the cost basis requested.

When the *Member* does not possess the necessary skill, knowledge or experience they should decline the instruction and recommend the services of an expert quantity surveyor or other costing expert be obtained. Alternately, if the *Member* obtains fully informed written consent from the client to provide the insurance cost estimate, they may undertake the professional service in conjunction with another *Member*, or other expert, who has the required competence. The client must provide written consent prior to the *Member* commencing the professional service in conjunction with another *Member*, or other expert, having the required experience/competence.

Australian *Members* need to understand that;

1. an insurance policy is a financial product and "dealing" in a financial product requires an Australian Financial Services Licence (*AFSL*). *Members* who do not hold an *AFSL* [1] must make it clear that the report or other advice is not providing advice relating to the adequacy of an insurance policy and that the report or advice is limited to the insurance cost estimate only. The *API* advises that such a qualification is usually prudent even if the *Member* is the holder of or acting under an *AFSL*, but this is a matter of judgement for the *Member* to decide in each case; and
2. where the Member is instructed to provide an insurance cost estimate in accordance with an insurance policy, the *Member* should obtain confirmation in writing of the client's interpretation of the basis of the cost estimate.

In New Zealand, *Members* are generally not instructed or qualified to review policy wording, however knowledge of the cover previously or currently in place, as the case may be, is an important factor in good risk management practice.

[1] Means the Member must hold one for their firm (employer), or if not, be an authorised representative of an *AFSL* holder or be the employee of an *AFSL* holder.

4.0 Estimates for General Insurance Purposes

Clients requesting an insurance cost estimate for general insurance purposes, usually require the *insured*, or a *Member*, to express an opinion on a specified cost estimate basis.

As previously noted, *Members* should obtain clarity on what basis of insurance cost estimate is required.

An insurance cost estimate is distinctly different from an opinion of value.

Insurance cost estimates for general insurance purposes require understanding of the following matters:

- the various bases of insurance cost estimates
- an insurance cost estimate may include allowances for demolition, design, and reconstruction
- an appreciation of how costs can fluctuate over time including during the period of insurance and during demolition, design and reconstruction
- understanding the impact heritage and any other planning restrictions could have on the insurance cost estimate
- an understanding of assessing costs of construction or manufacture
- noting when the services of an expert quantity surveyor or other costing expert should be recommended/obtained.

4.1 Risk Considerations for Members

Valuers are generally not experts in construction, construction costs and/or engineering matters and the insurance cost estimate is provided by *Valuers* in their capacity as valuers, not as building or construction experts.

Valuers should consider whether it would be prudent to include a qualification statement in the report or other written advice to the effect that the insurance cost estimate is indicative only and for a more reliable estimate the client should rely on the advice of a quantity surveyor or architect or other suitably qualified construction and costing expert.

A risk for *Members* is that if they provide an opinion of the insurance cost estimate and this is found to be less than the actual cost, then in the event of a claim, they may face exposure if an averaging provision applies. (see Section 4.2)

To mitigate risk *Members* should carefully consider the circumstances of each instruction. *Members* should consider imposing a strict limitation of liability clause in relation to opinions given for insurance cost estimates.

It is also important to understand that the insurance cost estimate provided by *Members* is for the total cost of the *tangible asset insured* in the event of a total loss, which is extremely rare. Most claims involve a partial loss.

Members should be aware that other parties, for example, lessors, financiers, trustees, mortgagees, and the like, can have interests in the *tangible asset insured* and should act in the knowledge that liability may extend to those other parties.

In Australia, when specifically instructed, and where an insurance cost estimate is provided as an “add-on” to a mortgage security valuation, Members should include a strict limitation of liability in relation to the insurance cost estimate provided.

In New Zealand *Members* should not provide insurance cost estimates as an "add-on" to valuation reports.

4.1.1 Limiting Liability to Agreed Parties

If a *Member* does not wish to extend their liability to parties other than the party who commissioned the insurance cost estimate, then the *Member* should include an appropriately worded third party disclaimer.

4.2 Co-insurance Clauses

Co-insurance clauses or averaging provisions in insurance policies provide that, if at the time of the loss, the cost of the *insured tangible asset* exceeds the amount of cover, the *insured* is self-insuring for the difference in cost and therefore bears a proportion of any loss (including a partial loss).

Many insurance policies that cover damage to *destructible improvements* include averaging provisions which penalises policy holders for not declaring a sufficient *sum insured* at the commencement of the policy.

These clauses are intended to ensure that an *insured* insures the tangible asset fully, so that the *insurer* can charge an adequate premium for the risk they are assuming. *Valuers* are often asked, to provide insurance cost estimates prior to the inception of the policy.

The risk for *Members* is where they have provided an insurance cost estimate that is less than the actual cost, they may face exposure if a co-insurance clause or averaging provisions in the insurance policy applies.

4.2.1 Australian Act

In Australia insurance policies, which include averaging provisions, are regulated by Section 44 of the *Insurance Contracts Act 1984 (Cth)*.

An insurer cannot rely on an averaging provision unless the *insured* was clearly informed of the provision before the contract was entered into (Section 44 (1)).

4.2.2 New Zealand Act

Under the *New Zealand Insurance Law Reform Act 1985* the "pro rata condition of average" is excluded for policies relating to a dwelling house or any other contents thereof. Other policies may contain a pro rata condition subject to the insurer clearly informing the insured in writing of the nature and effect of the condition.

5.0 Replacement Insurance Cost Estimates (residential property)

In Australia, assessments of the *replacement insurance cost estimate* for "single residential property",[2] are provided by *Valuers* in accordance with the *PPSM*. The *PPSM* outlines the basis of the 'Insurance Assessment' included in PropertyPRO Valuation Reports.

The version of the *PPSM* applicable at the date of this *GP* notes that the 'Insurance Assessment' is;

> "… an estimate of an insurable sum under replacement conditions. This would normally include:
>
> - estimated construction costs,
> - provision for cost escalation during period of insurance and rebuilding process,
> - allowances for demolition and clean-up, and
> - professional fees.
>
> Cost of alternative rental accommodation is not included."

The *PPSM* further notes;

> "Valuers are not experts in construction, construction costs and/or engineering matters and the insurance estimate is provided by Valuers in their capacity as Valuers, not as building or construction experts."

In relation to providing insurance assessments for heritage property the *PPSM* notes;

> "… the Valuer may not have the required expertise to provide a Replacement Insurance Cost Estimate. In these situations, the Valuer must advise the Client to undertake their own investigations through a suitably qualified Quantity Surveyor, or similar."

Valuers are reminded that a *replacement insurance cost estimate*, requires a different analysis and calculation to a market value assessment. The investigations, analysis and calculations for an insurance cost estimate requires a detailed understanding of construction costs, as well as the risks of known or observable cost escalations in the market at the date of the assessment.

Valuers providing *replacement insurance cost estimates* should utilise available cost guides and have an understanding of construction costs in their local area from building contracts provided for construction valuations undertaken. As a minimum, *Valuers* are expected to have a working knowledge of the prevailing construction and demolition rates per square metre, as well as anticipated escalation on these costs in the markets they undertake mortgage valuations.

Lenders may use the 'Insurance Assessment' provided to check against the adequacy of insurance organised (the *sum insured*) by the borrower.

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[2] See PropertyPRO Supporting Memorandum

6.0 Estimating Costs

6.1 Partial Loss and Repair Costs

In the case of a partial loss, costs cover the cost of repairing the *insured tangible asset* to its condition when new. The extent of damage and therefore the cost of repairs cannot be anticipated prior to an actual loss occurring. The cost of repairs may be more or less than the total cost to replace or reinstate the *insured tangible asset*.

To the extent the estimated cost of repairs is greater than the estimated cost to completely replace or reinstate the *insured tangible asset*, it is often the case that the insurer would seek to completely replace or reinstate rather than repair the asset. In any case, the estimation of repair costs is within the area of expertise of a loss adjustor or loss assessor and can only be completed after a loss has occurred.

6.2 Cost Estimates

Insurance cost estimates of tangible assets usually include the following elements:

a) construction or manufacturing cost estimates,

b) fees and contingencies,

c) demolition and debris removal, and

d) estimates in respect of cost increases during the policy period, lead time and reconstruction periods.

For New Zealand *Members*, refer to Addendum A – Legislation and Other Matters Specific to New Zealand.

6.2.1 Reinstatement Cost Calculations

The cost to reinstate the *insured tangible asset* at the same location (*situation*) *to* a condition equal to, but not better or more extensive than its condition when new.

Reinstatement cost estimates notionally assume a total loss.

For New Zealand *Members*, refer to Addendum A – Legislation and Other Matters Specific to New Zealand Section A 2.9

6.2.2 Replacement Cost Calculations

The cost of replacing the *insured tangible asset* with that of an equivalent asset, at the same location (*situation*), providing similar function and utility, but which is of a current design and constructed or manufactured using current materials and techniques.

Replacement cost estimates assume a total loss and replacement of the whole of the *insured tangible asset*.

6.2.3 Reproduction Cost Calculations

The cost of recreating the *insured tangible asset* with an exact replica of the asset, at the same location, using the same materials and specifications.

The *reproduction cost* assumes a total loss scenario and is the sum of all the costs required to reproduce (replicate) the whole of the *insured tangible asset*.

6.2.4 Indemnity Value Calculations

The cost required to replace, repair and or rebuild the *insured tangible asset,* at the same location (*situation*), to the condition and extent substantially equal to but not better or more extensive than its condition and extent at the time immediately before the loss or damage occurred, and taking into consideration the age, condition and remaining useful life of the tangible asset. The cost to repair or replace the *insured tangible asset* takes into account depreciation of the asset.

New Zealand *Members* are reminded that there are different forms of indemnity value and to refer to Addendum A – Legislation and Other Matters Specific to New Zealand.

6.3 Destructible Improvements

There are several ways to estimate the cost for buildings, structures, and other site improvements as at the relevant date. For heritage improvements also see section 6.4. Two of the more common methods are:

a) an estimate based on building cost guides; and

b) an estimate based on elemental costs.

In the former the estimate of *cost* is based on construction cost rates (typically, but not always, rates per square metre) published in building cost guides and/or construction contract rates. This commonly used method is intended to provide indicative cost estimates.

Elemental building cost estimates determine the construction cost of a building, structure, or site improvement by reference to the estimated cost of the individual components or elements of that building, structure, or site improvement. The application of such method requires specific training and knowledge.

Members who are qualified to complete elemental cost estimates typically obtain detailed building plans and specifications or gather such information from a physical inspection of the site to assist in the accuracy of the calculations. Where information in relation to recent constructions of a similar nature are available, these may assist the *Member* to estimate the appropriate cost for each element. *Members* should consider the reliability of evidence or information provided, sourced, or made available, and assess the information in terms of its comparability to the subject asset.

An elemental cost estimate is likely to produce a more robust cost estimate than an estimate based on building cost guides.

In applying the selected method(s), *Members* should have regard to the following factors (if quantifiable):

a) specific materials used in the building (e.g. mixture of stone, brick, plasterboard, etc.),

b) location factors (e.g. remote or rural sites v metropolitan),

c) design of building(s) including soil type, special footings, etc,

d) external dimensions of a building (some cost guides relate only to internal building measurements),

e) fees associated with reconstruction including architects, survey, engineering and statutory fees, and

f) cost increases/decreases between the date of issue of published cost guides and/or the date of construction contracts, and the date of the assessment.

Insurance cost estimates undertaken in non-metropolitan and remote areas would usually reflect additional costs associated with transport, labour and materials. It may be possible for a *Member* to gauge an estimate of the location factor/loading by comparing local construction costs and/or by examining a sample of costs and relating them to known costs in metropolitan areas for equivalent construction costs as a baseline.

New Zealand *Members* are reminded to have regard to Addendum A of this *GP*.

6.4 Heritage Improvements

A heritage improvement is one that is deemed worthy of conservation because of its cultural significance.

Where heritage improvements have been officially designated as such by relevant authorities, legislation may restrict renovations, modifications additions and the like by imposing strict requirements and potentially lengthy approval processes. Governments have enacted measures to safeguard specific historic *properties* or to protect whole areas/precincts of special architectural or historic interest.

In the case of a total loss where a heritage building has been destroyed along with the element of heritage to be conserved, then the cultural significance is likely, but not necessarily, to have been lost.

In such circumstances if heritage restrictions have been lifted, the owner may be at liberty to replace the building or redevelop the site as per planning requirements, unaffected by heritage issues over the subject property.

The risks arising from partial losses are heightened in relation to heritage improvements, given heritage legislation may require making good any damage and this may require repairing or reproducing components of the building in a style and form of construction that most closely resembles the remaining original structure. Increased costs may be incurred due to the engagement of suitable tradespeople, such as those skilled in stone masonry, iron tracery and stained glass etc.

Given the risks of increased costs in the event of partial claims, *sums insured* are therefore typically determined using a *reproduction cost* basis (i.e., the cost of rebuilding the structure as it exists allowing for all extra costs). This method establishes the current cost of reproducing every component of the building in a style and form of construction most closely resembling the original.

When providing insurance cost estimates of heritage improvements *Members* should consider increased lead times, higher construction costs and professional fees. *Members* will also need to understand the prevailing planning controls within heritage precincts.

Members should obtain clear instructions as to the basis of assessment. As noted previously, in most cases heritage improvements will normally be instructed on a *reproduction cost* basis.

Members should ensure that instructions to provide an insurance cost estimate for heritage improvements clearly outline the basis of the cost estimate required (e.g., *reproduction cost*, *replacement cost* or *indemnity value*).

6.5 Plant, Machinery & Equipment (P&E) Considerations

An insurance cost estimate for *P&E* should be based on the *replacement cost* of currently available equipment, including costs of transport, installation, commissioning, consultants' fees, engineering, procurement, and construction management (*EPCM*) costs and non-recoverable taxes and duties. Design, *EPCM* and other similar costs (sometimes referred to as 'common distributable costs') are considered from the point of view of the reconstruction of a complete facility, rather than the cost of the original assets.

In the case of industrial premises items such as masts, antennae, underground tanks, and other similar items of equipment are more commonly included as part of the insured amount of *P&E*.

Where *P&E* and/or other services are associated with a building, or where various components of the buildings *P&E*, and other services are being assessed separately by different *Members* or other costing experts, it may be necessary for the different individuals to confer to ensure that no components are either missed or double counted.

6.6 Fees

Members should, where required under the agreed instructions, assess in each case the extent of involvement of professionals such as architects, surveyors, consultant engineers etc. and where applicable, should include an appropriate allowance for their fees in cost calculations.

6.7 Demolition and Removal of Debris

Members should assume that all tangible assets would be destroyed in a loss situation and would require removal from the land, prior to replacement.

To the extent it is within the agreed instruction, the cost of demolition and removal of debris should be estimated by having regard to any known demolition and removal costs for similarly constructed assets in the locality, and/or demolition costs published in building cost guides. *Members* should have regard to the relative difficulty of demolishing and removing the tangible asset(s).

Consideration should be given to the presence of asbestos or similar hazardous materials. The potential for asbestos to contaminate the site and surrounding areas in the event of major damage to the property is an important consideration for those undertaking insurance cost estimates. An asbestos report should be obtained or noted in the report or advice and, if not available or provided this should also be noted in the report of advice.

Difficult access to a site may also be a factor that should be noted and considered in allowances for demolition and removal of debris.

The instructions agreed between the *Member* and the client should clearly detail whether the insurance cost estimate is to include an allowance for demolition and debris removal. The report or advice should state whether the insurance cost estimates reported are inclusive or exclusive of such costs.

6.8 Lead Time

Lead time is the period after a loss occurs when any remaining improvements are demolished, plans and specifications of the replacement building are drafted and agreed upon, appropriate approvals are sought and obtained from statutory authorities and all matters are completed in preparation for rebuilding.

The instructions agreed between the *Member* and the client should clearly detail whether the insurance cost estimate is to include an allowance for cost changes during lead time.

To the extent it is included within the agreed instructions anticipated cost variations during the lead time period need to be taken into account in cost estimates. As this is a prediction of the future, the estimate should be appropriately qualified.

The report or other advice should state whether the insurance cost estimate(s) are inclusive or exclusive of such costs.

6.8.1 Lead Time Considerations for Plant, Machinery & Equipment (P&E)

In the case of *P&E*, the unpredictability of future cost inflation/deflation, especially that caused by foreign exchange rate fluctuations, means that any such allowance is subject to significant potential estimation error and, if provided, should therefore be appropriately qualified. For this reason, *Members* may elect not to provide such an estimate.

For *P&E* that is located within a building, in the event of a loss, the building will usually have to be replaced before the plant, machinery and equipment can be replaced and commissioned. Therefore, the total lead time allowance may need to also include the building reconstruction period lead time.

6.9 Reconstruction Period

The reconstruction period is the period from the time building approvals have been obtained to completion and handover of the new building. To the extent it is within the agreed instruction, allowances for cost changes during the reconstruction period need to be made and included in calculations.

Members should consider each element of construction or manufacture to determine what allowance for cost changes should reasonably be made. As this is a prediction of the future, the estimate should be appropriately qualified.

It is not usual for instructions for insurance cost estimates of *P&E* located in a building to include a requirement for all allowances for the reconstruction period to be included. Where it is requested it should be noted that for substantial installations a lengthy period may be required whilst the building and plant is constructed, installed, and commissioned.

For *P&E* that is located within a building, in event of a loss, the building will usually have to be replaced before the *P&E* can be replaced and commissioned. Therefore, the total reconstruction period allowance may need to also include the building reconstruction period.

The unpredictability of future cost inflation/deflation, especially that caused by foreign exchange rate fluctuations, means that any estimate of the cost changes during the reconstruction period is subject to significant potential estimation error and if provided, should therefore be suitably qualified. For this reason, *Members* may elect not to provide such an estimate.

The instructions agreed between the *Member* and the client should clearly detail whether the insurance cost estimate is to include an allowance for cost increases during the

reconstruction period. The report or other advice should state whether the insurance cost estimate(s) are inclusive or exclusive of such costs.

6.10 Goods and Services Tax (GST)

GST is payable on construction costs of *destructible improvements*, purchases of and the commissioning of *P&E*, and professional fees. The way a claim is settled may determine whether it is possible for the *insured* to claim the GST paid back as an input tax credit. For example, most insurers are eligible to claim back GST paid, however, the GST status of the *insured* may determine whether the *insured* is able to claim back GST paid.

Insurance cost estimates for *destructible improvements* to non-residential (retail, industrial and commercial) property, do not usually include GST in the calculations as either the *insured* and/or the insurer will generally be able to obtain the benefit of the input tax credit for any GST paid. This is not the case for insurance cost estimates for home insurance which should include any GST payable as a cost component in the calculation.

The instructions agreed between the *Member* and the client should clearly outline whether the insurance cost estimate is to include GST or not.

Members should clearly state whether the insurance cost estimate(s) reported is on a: plus GST (if any) or inclusive of GST (if any) basis.

6.11 Other Related Cost Bases

Members are reminded that an insurance policy is a private contract between an *insured* and insurer. Whilst the terms are often in a standard form, an insurer and *insured* can agree a different basis of cost estimate if they wish to. Whilst this is not common, it is why it is important that the instructions to provide an insurance cost estimate are clear in relation to the basis of the cost estimate and the tangible assets to be included.

7.0 Estimating Indemnity Value

For New Zealand *Members*, refer to Addendum A – Legislation and Other Matters Specific to New Zealand.

The common definition of 'indemnity' established in case law is, the loss that would be suffered by the *insured* in the event the *insured tangible asset* is destroyed. This can be, but is not necessarily, the market value of the tangible asset destroyed or damaged as at the date of destruction or damage that resulted in the insurance claim.

The measure of loss in the event a tangible asset is destroyed or damaged can be estimated using either the market approach or the cost approach, depending on the nature of the asset, client instructions and the circumstances.

An insurance estimate which covers multiple tangible assets and types of assets (e.g., destructible improvements or *P&E* estimates may include both specialised and non-specialised assets) may require multiple approaches to assess the indemnity value. *Members* may also be specifically instructed to utilise the market approach and/or the cost approach to estimate indemnity value.

When estimating the indemnity value of a tangible asset, the estimate should consider the age, condition and remaining useful life of the asset.

In the case of insurance, useful life is not synonymous with economic life, but rather only reflects physical life. The *insured* is entitled to insure the remaining physical life of an asset, even though the economic life may have expired.

The determination of indemnity value using the cost approach therefore requires firstly, an estimate of the cost to replace, or reproduce the tangible asset, and secondly an estimate of the likely/expected physical life of the tangible asset and the life expired. The expected physical life of an asset is assessed on the basis that reasonable maintenance is carried out to preserve the existing use.

Members should consider the expected life of the tangible assets in the location of the asset and elsewhere as appropriate.

For specialised buildings and structures, it is common practice to apply a straight-line method of depreciation when determining indemnity value. This approach assumes that the remaining service potential of the asset is used up at a constant rate assuming reasonable maintenance. However, there are many types of assets, particularly those that experience rapid technological and functional obsolescence, for which other methods including the diminishing value method, may be more appropriate.

When estimating the indemnity value of *P&E*, either the cost approach or market approach can be applied, depending on the nature of the asset class, the degree of specialisation of the asset, the availability of market evidence and the circumstances of the *insured*. (Circumstances of the *insured* may include whether the business operations of the *insured* (that the assets are part of) are commercially viable, and whether the assets can remain in the existing location etc.)

If using the market approach, indemnity value may be estimated on the basis of comparable sales for similar second-hand assets, plus the full (undepreciated) cost of installation and commissioning.

If the cost approach is applied, the *replacement cost* should include allowances for installation and commissioning costs. This is depreciated for age, condition and

obsolescence. However; in some circumstances, usually where the installation and commissioning costs are a high proportion of the total *replacement cost*, the depreciated replacement cost based indemnity value estimate may include the full (un-depreciated) cost of installation and commissioning.

Members should include reference within their report or other advice that an indemnity value arrived at using a cost approach may not be the same as one using a market approach, and in some cases, the difference might be material.

The agreed instructions between the *Member* and the client should clearly state the approach and/or method(s) applicable to the estimate of indemnity value. The approach adopted and method(s) utilised should also be detailed in a report or other advice.

As for any other professional services undertaken which contain a *Members* opinions or conclusions *Members* should fully explain any assumptions or limitations, the approach adopted and methodology applied as well as the reasoning that supports the opinions and conclusions reached so as to fully inform the agreed user of the report or other advice.

In New Zealand, indemnity values are also used for the purposes of assessing the Fire and Emergency Levies on replacement insurance policies. *Members* should refer to the New Zealand specific addendum of this *GP* for further information relating to the assessment of indemnity value for this purpose.

8.0 Report Content

8.1 Location (situation)

The location (*situation*) of the *insured tangible asset* should be identified.

All freestanding buildings on a site should be separately identified as they may represent separate insurance risks.

8.2 Destructible Improvements

An insurance cost estimate report for destructible improvements (to real property) should clearly describe the improvements that are included in the insurance cost estimate, and may also include, to the extent included within the agreed instructions:

a) A concise description of the assets including a clear statement as to whether items such as floor coverings, internal partitions, fit out, retaining walls, or other site improvements and services are included in or excluded from the estimate.

b) A statement of specific exclusions such as plant, equipment, tools, furniture, stock and materials in trade, and the costs of removal/disposal of these.

c) A cost estimate for the *insured tangible asset(s)* on the basis outlined in the agreed instruction as at the date of assessment.

d) An estimate of the cost of demolition and removal of building debris.

e) An allowance for cost changes (increases or decreases) during the policy period.

f) An allowance for cost fluctuations (increases or decreases) during the lead time, i.e. the period after a loss or significant damage when debris is removed, building plans are drafted and necessary approvals are obtained.

g) An allowance for changes in costs during the rebuild/construction period.

h) A statement as to the treatment of GST.

i) Any relevant qualifications and disclaimers, which includes comments upon any unverified information or assessments of future events.

Loss of rent/profits may also be required depending on the agreed instructions.

8.3 Plant & Equipment

For plant, machinery and equipment assets, the report may include or explain the following to the extent included within the agreed instructions:

a) A description of the assets.

b) A cost estimate for the *insured tangible asset(s)* on the basis outlined in the agreed instructions as at the date of assessment.

c) An allowance for installation and commissioning costs, where applicable.

d) An estimate of the cost of demolition and removal of debris (where applicable).

e) An allowance for anticipated changes in costs (increases/decreases) during the policy period.

f) An allowance for cost fluctuations (increases/decreases) during the lead time, i.e. the period after a major loss when debris is removed, building plans are drafted and necessary approvals are obtained (often any buildings housing plant,

machinery or equipment will need to be reinstated before the plant can be reinstated).

g) An allowance for cost changes (increases or decreases) due to any additional lead time associated with the plant reconstruction, installation, and commissioning. This period may be substantial.

h) The treatment of obsolete assets. It is common for obsolete or unused assets to be excluded from an insurance assessment; where this is the case, this should be explicitly noted.

i) A statement as to the treatment of GST.

j) Any relevant qualifications and disclaimers, which includes comments upon any unverified information or assessments of future events.

9.0 Other Issues – Large Scale Catastrophes

Insurance cost estimates and *sums insured* are usually determined based on a single loss and not in the context of a more widespread catastrophe or disaster such as an earthquake, flood, or bushfire.

Large-scale catastrophes, disasters and even unrelated regional or international events such as geo-political issues, wars or pandemics can result in unforeseen escalations in building and other related costs due to the high demand or impacts to supply chains for both materials and labour.

Such events may result in shortfalls between the *insurable sums* and the total cost of reinstating, replacing or reproducing the *insured tangible asset*.

Members should attempt to limit their liability to the agreed user(s) of any insurance cost estimate by including suitable and appropriately worded limitations and warnings (qualifications statements) as well as third party disclaimers when providing insurance cost estimates for the purpose of setting *sums insured* or insured amounts. Such qualification statements should also cover excluding possible cost escalations arising from such catastrophic events.

10.0 Effective Date

This *GP* is effective from 1 July 2025. Earlier adoption is permitted and encouraged.

This GP replaces ANZVGP 104 *Valuations for Insurance Purposes* which was effective from 1 July 2021 and withdrawn from 30 June 2025

Addendum A – Legislation and Other Matters Specific to New Zealand

A1.0 Legislation

Members should be aware that in New Zealand, the insurance valuation report provided may be used in the context of the following legislation:

A 1.1 Fire and Emergency New Zealand Act 2017

The Fire and Emergency New Zealand Act 2017 (and amendments) repealed the two Acts governing fire services, the Fire Services Act 1975 and the Forest and Rural Fires Act 1977. The Act was given Royal Assent on the 11th of May 2017. Whilst the Act is in place, the new basis for levy calculation has not been finalised. In April 2019, the Fire and Emergency New Zealand (Levy Rates and Information Requirements in Transitional Period) Amendment Regulations 2019 came into force. The amendment removes the reference to an implementation date of 1 July 2019 to provide that the regulations will be revoked when the new levy regime comes into force.

At the published date of this GP, Fire service levies are to be calculated in accordance with the 1975 Fire Services Act. In New Zealand, the Fire Service levy is collected from the insured and it is generally calculated as a prescribed percentage of the indemnity value of the insured asset. Therefore, it is necessary for the indemnity value to be assessed even though the insured may have a replacement policy.

Indemnity is not defined in the Fire Services Act 1975 and, if it is assessed for Fire Service Levy purposes, should be assumed to have the same meaning as in the insurance industry and in insurance case law.

Please refer to Section A2.11 for more detail in relation to the Indemnity Value estimates carried out for Fire Service Levy purposes.

Certain categories of property (mainly ancillary structures such as fencing retaining walls, roads, paths, drains, bridges, tunnels, reservoirs, etc.) are exempted from the Fire Service Levy (refer Section 47B (Third Schedule) of the Fire Service Act). On a large site these may comprise a substantial portion of the total indemnity value. The insured may wish to have these assets identified separately or excluded, so as not to pay levies that are not legally required.

The Fire and Emergency New Zealand (Levy) Amendment Act 2023 was enacted on 5 April 2023. The legislation changes the commencement date and makes some amendments for new levy provisions including amendments to Part 3 of the Fire and Emergency New Zealand Act 2017 (Sections 80 to 140) to 1 July 2026. The Act now references contract of fire insurance and defines sum insured.

The Standards Board will look to amend this section if and when the structure around Fire Service Levy collection changes.

A1.2 Natural Hazards Insurance Act 2023 (NHI Act) In New Zealand, the Natural Hazards Insurance Act ('NHI') provides natural hazard cover. It applies only to residential property. Between the insurer and the Natural Hazards Commission, in the event of an earthquake, hydrothermal activity, landslide, tsunami, volcanic activity, a flood, a storm, a natural hazard fire whether a partial or full loss, subject to the property being fully insured in monetary terms then the property owner will be covered. Although each may have limitations on specific items, from a cost estimate perspective the objective is to ensure

that an adequate sum insured is determined so the property owner may be fully insured as opposed to being concerned with whether the Natural Hazards Commission or insurer pay.

Cover under and the NHI may be based on the floor area and therefore insurance cost estimates of residential buildings should include the gross floor area for each individual unit within the insured property, either within the asset description or in the covering letter/report.

Furthermore, some essential services, some retaining walls, bridges and culverts, to a limit within 60 metres of the perimeter of an insured residential use building and in some instances beyond may be covered by the NHI .

Historically, in relation to site development, Some members have commonly only included assets which are located within eight metres of the perimeter of the insured structure. However, the “eight metre” requirement only applies to residential structures referenced under the NHI , and should not be applied for general insurance cover, which is discussed more fully in this GP. In summary the Valuer should allow for all improvements and if an item is not included then this must be clearly stated.

A1.2 Domestic ‘House Insurance Policies’

In New Zealand, Insurance Council of New Zealand (ICNZ)identifies three different forms of policy cover:

Fixed Sum Insured – This is specified by the homeowner and is based on the full rebuild cost of the home. If the house is destroyed, cover is up to this amount.

Indemnity – Cover is for what the house was worth prior to loss (excluding land) factoring in general wear and tear. ICNZ specifies that some older homes (pre-1945) may only qualify for Indemnity Cover unless they have been modernised.

Total Home Replacement – This is where the premiums are based upon the size of the house and insurance would cover the entire cost of replacement if damaged.

For more detailed information, we advise members (and their clients) to peruse detail on the ICNZ Website.

It is important to highlight that that ICNZ advise that for most Home policies insurers require separate identification of the following:

‘Retaining Walls’

‘Recreational features’ – ICNZ defines recreational features as ‘permanently fixed outdoor items built for the purposes of recreation, such as swimming pools, spa pools and tennis courts’ and that these (along with retaining walls) may have limited cover or in some cases, no cover at all. It is recommended that improvements that fall into this category are separately itemised.

‘Other Special features’ – ICNZ defines the following improvements as being ‘special features’ and are excluded from most house policies:

a) Jetties.
b) Wharves.
c) private landings or airstrips.
d) permanent fords or dams.

e) bridges and culverts.

f) cable cars.

g) private utility plants (such as windmills, water mills or diesel generators).

For more detailed information, we advise members (and their clients) to peruse the ICNZ Website for detail on policy types and information insurers require.

A2.0 New Zealand Insurance Form

A2.1 Insurance Form

For many years *PINZ* and *NZIV* members (both Land and Buildings and Plant & Machinery Valuers) provided a cost estimate in certificate form summarising the information for the clients as well as the insurance industry in an easily recognisable summary format.

As a result of national disaster events and changes to insurance policies, legislation, and levy calculations the insurance industry now requires reports to contain more detailed information to assist stakeholders with the insurance process.

To meet the requirement of clients and stakeholders, *PINZ & NZIV* recommend that insurance cost estimate reports contain a Certificate which complies with FENZ requirements and is very similar to that previously provided, with additional information on subsequent pages. The intention is to allow for a range of information tailored to the needs of the insurance industry. The opportunity exists for all valuers to liaise closely with clients so that useful and quality information is provided which will allow a decision to be made as to appropriate levels of insurance cover.

Key information to be included on the Summary Certificate and subsequent pages includes:

a) A more detailed description of the improvements that are included in the cost estimate retaining walls, underground services, common property, and other site improvements etc. Also, clear detailing of improvements that have been excluded from the cost estimate.

b) For commercial buildings, the cost estimate should state whether floor coverings, heating ventilation and air conditioning services, internal partitions or other fit-out are included or not. As some items of fit-out can be Tenant owned, it is important to seek confirmation from the client as to what is to be included / excluded from the cost estimate.

c) Insurers require information as to the nature and cost estimate of shared property to make appropriate allowances for insurance risk on that shared property. These can include shared driveways or other such common areas. In terms of cross-lease properties where multiple insurers can be involved, unless improvements lie within an area of land defined in the Flats Plan as exclusive use, the insurers pro-rata the total reinstatement cost over the total number of Flats. In a Unit Title situation however, there is only the one insurer. The cost estimate should clearly state how such “common property” has been treated.

d) Aerial photo and location map.

e) Inclusion of a summary into a table format if cost estimates of multiple improvements are being provided (as shown in Addendum B).

f) For residential properties, inclusion of a cost estimate summary into a table format separating any Recreational Features, Retaining Walls, or Special Features (as shown in Addendum C).

g) The certificate should only include those cost estimates or estimates required or requested. If a market related indemnity value, functional replacement or indemnity inflation estimates are required columns should be added to hold this data.

The requirement for additional information in many cases may make it impractical to include all relevant information on a 1-page summary or certificate. Accordingly, industry stakeholders have requested, and members are encouraged to provide a summary similar to the historical certificate as shown in the Addendum B with additional information on subsequent pages including an aerial photo, location map and more comprehensive construction detail and other matters (if required) together with the appropriate definitions and limitations.

For multi-unit, mixed use properties, it may be important to identify the proportions of the asset which are in residential and commercial use, as the NHI cover, and levy calculations maybe impacted by the proportion of dominant use.

The insurance Council has requested that Valuers include a depreciated replacement cost as detailed herein which provides for physical depreciation only.

In some circumstances such as where an indemnity insurance policy is in place, a Market based indemnity value may be required. This should be confirmed by the client as part of the instruction.

As a reminder, Section 5.6 of this GP refers to the treatment of GST.

Where a home insurance cost estimate is provided on a plus GST basis, it is recommended that a GST inclusive total amount also be shown in the summary.

A2.2 Asset Description

Members should include in the summary a condensed description of the insured assets and clarifying what is excluded from the assessment. For buildings, a general description of the main building(s) including main construction components, and site development should be provided. The description needs to be clear as to what plant & equipment as well as underground & overhead services are included.

For the purposes of the underwriter's risk assessment, *Members* are encouraged to identify the method of fire protection (for example, sprinkler system or heat/smoke detectors and automatic alarm) and this should be noted, along with the extent of coverage (for example, warehouse/office/canopies).

For commercial buildings, the cost estimate should state whether floor coverings, heating ventilation and air conditioning services, internal partitions or other fit-out are included or not.

For residential properties, identification of improvements that fall under the categories of Recreational features, Retaining walls and Special features together with confirmation within the report as to whether these improvements have been included or excluded within the cost estimate.

All freestanding buildings on a site should be separately identified as they represent separate insurance risk.

A2.3 Upgrade Requirements

Due to ongoing legislative changes, many buildings will not comply fully with building ordinances and the like. The modern equivalent asset assumption is intended to embody upgrade requirements without necessarily explicitly addressing compliance deficiencies. Typically, it will be helpful to summarise major differences between the insured asset and the modern equivalent asset under the heading Upgrade Requirements.

If publicly available, comment should be made as to any likely impacts because of hydrology issues (flood plains, overland flow paths, flood prone areas, etc) and land subject to liquefaction or within close proximity to a fault line, etc. Such environmental matters may impact on foundation / structural designs that would be over and above the 'modern equivalent'.

A2.4 Age

This is the earlier of the estimated year of completion of the asset or the commissioning date. The year of any significant upgrade or addition should be noted.

A2.5 Land Contour (Building cost estimates only)

This is a classification of the land contour containing the building/s and immediate yard areas. Valuer's classification of the land contour containing building and immediate yard areas, common terms include Level; Gentle; Easy; Medium and Steep and may include a comment if the land is retained.

A2.6 Subsoil Type (Building cost estimate)

This information is required by Underwriters as a broad indicator of seismic stability and other geological land risk factors such as potential liquefaction and fault lines. An entry should only be made in this portion of the report when the valuer has accurate knowledge as to the sub-soil type.

The perception gained from the definition can have a significant impact on insurance cost particularly in earthquake prone areas throughout New Zealand. It is important to discuss this aspect with your client and where potential penalties could arise; the insured should be encouraged to seek more detailed information from the Local and Regional Authority or engineering specialists.

A2.7 Other Known Characteristics

These will include any items not otherwise covered within the report, which will be of assistance to the client and/or insurers and should only be detailed when information is known on a particular topic, e.g. tenant fit out exclusions, locational factors, surrounding property uses, hydrology issues (flood plains, overland flow paths, flood prone areas), etc.

A2.8 Use/Occupation.

This should include a short description of the main site use. Where mixed use occurs, e.g., commercial/residential, this should be recorded. Because of FENZ and EQA requirements some stakeholders may require the cost estimate of the residential component to be separately shown.

A2.9 Reinstatement Cost Estimate

The definition which is included in the form has been redefined in line with common insurance cost estimate practice in New Zealand as:

"an estimate of the cost, as at the defined date, including relevant fees, of replacing the asset with a new modern equivalent asset, including where appropriate the use of current equivalent technology, materials and services. This is intended for the purpose of assisting the parties to the insurance contract in negotiating insurance premiums and, unless specified elsewhere, is not based on a detailed elemental and schedule of quantities approach as would be undertaken by a quantity surveyor or costing engineer. In construction unanticipated problems often arise and actual rebuilding, repair or replacement costs may vary from the estimate."

However, Members who have suitable experience and relevant information may undertake a more detailed, elemental, (see Section 5.1 of this *GP*) approach to estimating the Reinstatement Cost and may provide an amended definition. If reproduction cost is provided (and where agreed with the client, the existing construction materials/methods are not modern materials/methods), then the standard Reinstatement Cost Definition will certainly require modification.

The Reinstatement Cost Estimate is only valid as at a particular date (generally the date of inspection) unless stated otherwise. Notwithstanding that for insurance cost estimate purposes, valuers may give an indication of inflationary provision. Insurance cost estimates are not to be provided as at future dates.

Additional clarification is included to explain that the Reinstatement Cost Estimate does not include any allowance for catastrophic events (for example an earthquake) that may drive up replacement costs within a locality by increasing demand for repairs and rebuilding and creating an unusual shortage of labour and materials.

Members should note that no specific identification is made in the Reinstatement Cost Estimate of the cost of different materials and additional services. Should separate identification and calculation of costs be required, then this should be supplied on request. However, for any major items required, including a summary of such items may be appropriate.

A2.10 Inflationary Provision (Reinstatement Cost)

This should include for cost inflation during the 12-month insurance period, lead time and construction period. It should be noted that no allowance is to be made for any delay due to the need to comply with the provisions of the Resource Management Act including possibly the requirement to reinstate on an alternative site. All inflationary estimates provided should be suitably qualified.

A2.11 Indemnity Value Estimate

This is the estimate of the loss that would be suffered by the insured in the event the asset was destroyed.

Members may be requested to undertake a market related indemnity value estimate utilising a depreciated replacement cost estimate or other alternative methodology that would assist in identifying the loss in economic value the improvement(s) had to the insured. The New Zealand Insurance Form (Addendum B) provides two options for reporting indemnity, being Market Related Value and Depreciated Replacement Cost.

Where an alternative method is provided, the method should be clearly detailed on the form, the scope of work and explained within the report.

Indemnity Values are also provided for the purposes of calculating Fire and Emergency Levy's and for this purpose, a number of items can be excluded from the assessment. This is detailed below in the Depreciated Replacement Cost Section as this is the primary method used for this purpose.

The cost estimate scope of work / report should reference the methodology applied in assessing indemnity value, acknowledging the comments in this section of this *GP*. A suggested explanation of the approaches to indemnity is provided as follows:

Market Related Indemnity Estimate

Market related value is the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, after proper marketing, wherein the parties had each acted knowledgeably prudently and without compulsion.

This may be assessed using the market approach, income approach or the cost approach as appropriate.

The assessment excludes any land and will be the added value that the assets give to the market value of the land (assuming that, if appropriate, the property is leased at market rental). Should the insured wish to have an indemnity estimate considering other factors such as actual income, then this must be stated by the valuer. This situation may arise for property which is over or under rented and where the client specifically requires rent recognition. Furthermore, should the client wish to have an indemnity estimate reflect economic value lost, then this should be stated by the valuer, along with a clear explanation as to how the Indemnity Value has been derived under this specific method.

When estimating the indemnity value of *P&E*, either the Cost Approach or Market Approach can be applied, depending on the nature of the asset class, the degree of specialisation of the asset, the availability of market evidence and the circumstances of the insured. (Circumstances of the insured may include whether the business operations of the insured (that the assets are part of) are commercially viable, whether the assets can remain in the existing location etc.)

If using the market approach, the indemnity may be determined on the basis of comparable sales for similar second-hand assets, plus the full (undepreciated) cost of installation and commissioning.

If the Cost Approach is applied, the replacement cost should include for installation and commissioning costs. This is depreciated for age, condition and obsolescence. However; in some circumstances, usually where the installation and commissioning costs are a high proportion of the total Replacement Cost, the Depreciated Replacement Cost based indemnity estimate may include the full (un-depreciated) cost of installation and commissioning.

However, the actual loss to the insured may differ from the market value of the asset (refer to Falcon v State Insurance 1975). Where a Market Related Estimate is provided, and the Member considers that this figure may not be consistent with the actual loss, a clear statement noting any potential disparity should be provided in the scope of work/report accompanying the Insurance Form.

Depreciated Replacement Cost (DRC)

The commonly used definition is included on the form. DRC is the current cost of replacing an asset with its modern equivalent less deductions for age and physical deterioration. The cost estimate does not allow for economic obsolescence (if any).

For plant and equipment, DRC also considers technological and functional obsolescence. The cost estimate does not allow for economic obsolescence (if any).

DRC for Replacement Policies

This estimate is required by most insurers to consider whether they will offer replacement insurance on assets which are near the end of their useful life. As the DRC may bear little relationship to the market related value of the building or the true insurable "indemnity value" as defined by case law, a clear statement noting the potential disparity between both methods should be provided in the scope of work/report accompanying the Insurance Form. It is also for this reason that this approach may not be suitable for application in case of a claim.

Statutory Indemnity Estimate - Fire and Emergency Levies

DRC is also commonly relied on for the purposes of calculating Fire and Emergency Levies. When provided for this purpose, the act allows several items to be excluded from the assessment (Refer Section A1.1). These are detailed in Section 47B (third schedule) of the Fire Services Act 1975. If provided for this purpose, It is recommended that members qualify the documented Indemnity Value highlighting that this has been calculated for the purposes of assessing Fire and Emergency Levies only.

A2.12 Inflation Provision (Indemnity)

If cost inflation is likely to exceed the depreciation over the insurance period, (usually one year) an allowance for indemnity inflation is necessary. Some asset classes, for example, computer equipment, are unlikely to experience cost inflation more than depreciation over the same period, but indemnity inflation is common for buildings and other assets that depreciate slowly.

A2.13 Functional Replacement Cost

Functional Replacement Cost is the estimated replacement cost of an existing asset (which may have unnecessary excess production capacity) with a Modern Equivalent Asset (MEA) that has only the capacity necessary (which must always be less than, not more than the existing capacity) It's similar to Optimised Replacement Cost. It can also be used if the MEA is substantially different. For example a large high production capacity asset that functions with outdated technology may no longer be available and the MEA may be 2 or more smaller machines using different technology. That's also functional replacement.

This would apply to assets unlikely to be reinstated to the same extent, or to the same design or construction material as existing. This would be required when demand necessitates a smaller or different asset due to changes in technology, economics, and other factors. Examples could be a dated, two-level, freezing works, which would better be replaced by a single level structure, through to a two-story retail/office building in a district where there is no demand for first floor office space and the ground floor retail would therefore likely only be replaced.

Members should consult with clients prior to assessing on this basis.

A2.14 Demolition Estimate

This normally assumes that the total asset to be demolished has been damaged beyond repair. The Demolition Estimate covers the cost of demolition and removal as debris of the asset, excluding the cost of removal of any noxious materials such as asbestos, or removal of debris on adjoining premises.

Where there is generally known presence of asbestos or similar hazardous material, (whilst excluded from the assessment) this should be noted. If allowance is required to be made for the salvage or removal of fixtures, fittings, and contents, then this should be specified and referred to in an attached letter. This could also apply to undamaged plant which must be removed from the property if considered necessary.

The Demolition Estimate does not include for shoring up any structures, either on the insured property or neighbouring properties. Furthermore, it does not include for the removal of building contents.

A2.15 Cost Estimate Date

This is the effective date of the cost estimate, which will usually be the date of inspection. Members should avoid statements that the cost estimate is valid for periods in the future. Only the inflation estimates may be estimated for a future period.

A2.16 Disclosures

The cost estimate report should also disclose any key assumptions and explain the reasons for the adoption of the particular methodology or methodologies utilised.

Addendum B - New Zealand Insurance Form

Name of Client:	**Body Corporate No XXXX,**
Address of Assets:	**xx, City**
Asset Description:	20 level apartment/hotel tower including four basement carparking levels. Studio, one, two and three bedrooms plus penthouse unit configurations. Ground floor reception, lounge, restaurant, swimming pools, spa pool, sauna, fully equipped gym and changing room facilities.
Construction:	Reinforced concrete foundations and floor slabs, steel structural frame. Exterior cladding comprises concrete block, concrete panel and 'alucobond' aluminium composite panelling with aluminium joinery and tinted glazing. Profiled steel roof. Airconditioned, sprinklers, fire alarm, CCTV security system. Tiled balconies with metal and glass balustrades. Internal walls and ceilings are plasterboard, with carpet and tile floor coverings. Good quality residential appointments. Two 13 person 1,000kg passenger lifts to all levels. Entrance Canopy. Site sealing, landscaping and signage.
Services:	Underground services include 3 Phase power, Gas, Fibre optic Data & Telephone cabling, Water supply, Wastewater & Stormwater disposal.
Construction Date:	2003
Use/Occupation:	Residential – Level 5 and above, 187 residential apartments Commercial - Unit A, Office & reception; Unit B, Restaurant.
Contour:	Level (1)
Soil Type:	Unknown.
Other:	The Depreciated Replacement Cost has been assessed for Fire Service Levy calculation purposes only. The assessed cost estimate excludes some elements of the insured property which are exempt from the Fire Service Levy.

Asset	Reinstatement Estimate	Reinstatement Inflationary Provision	Depreciated Replacement Cost Estimate	DRC Inflationary Provision	Demolition Estimate
Building I Retail	$2,000,000	$160,000	$1,200,000	$60,000	$200,000
Building 2 Offices	$1,500,000	$120,000	$900,000	$45,000	$150,000
Building 2 Residential	$3,000,000	$240,000	$1,800,000	$90,000	$300,000
TOTAL (excl. GST)	**$6,500,000**	**$520,000**	**$3,900,000**	**$195,000**	**$650,000**

Valuers Signature: Name: Inspection Date: Effective Date:

(a) All figures quoted are exclusive of G.S.T, Finance costs, Relocation expenses and other indirect costs.

(b) All figures are exclusive of any allowance for land value.

(c) This form must be read in conjunction with the Explanations, Assumptions and Disclaimers of terms etc on the following pages.

(d) The information in this report is intended solely for the purpose of assisting the parties to the insurance contract in negotiating premiums and further, to assist with the setting of Fire Service Levies, and may not be used for other purposes without the written consent of the Valuer.

(e) All figures assume compliance with building regulations and bylaws.

Addendum C - New Zealand Insurance Form (Domestic 'Home Policies')

Name of Client:	**XX**
Address of Assets:	**XX, City**
Asset Description:	Single level 3-bedroom residential dwelling with 2 bathrooms. Timber decking. Internal access double garaging. Detached metal clad unlined storage shed with power supply. Concrete driveway. Exposed aggregate and tile paving. Timber and concrete block fencing.
Construction:	Concrete foundations, timber weatherboard and brick veneer external walls, double glazed aluminium framed window joinery and pressed metal tile roof cladding.
Recreational Features:	Inground concrete swimming pool & associated pump equipment
Retaining Walls and Special Features:	Not Applicable
Services:	Gas, Fibre optic Data & Telephone cabling, Water supply, Wastewater & Stormwater disposal.
Construction Date:	2008
Use/Occupation:	Residential
Contour:	Level (1)
Soil Type:	Unknown

Asset	Reinstatement Estimate	Reinstatement Inflationary Provision	Demolition Estimate
Main Building & Other Improvements	$500,000	$25,000	$40,000
Recreational Features	$60,000	$4,000	$5,000
Special Features			
Retaining walls			
TOTAL (incl. GST)	$560.000	$29,000	$45,000

Valuers Signature: Name: Inspection Date: Effective Date:

(a) All figures quoted are inclusive of G.S.T

(b) All figures exclude Finance costs, Relocation expenses and other indirect costs.

(c) All figures are exclusive of any allowance for land value.

(d) This form must be read in conjunction with the Explanations, Assumptions and Disclaimers of terms etc on the following pages.

(e) The information in this report is intended solely for the purpose of assisting the parties to the insurance contract in reporting insurance premiums and further, to assist with the setting of Fire Service Levies, and may not be used for other purposes without the written consent of the Valuer.

(f) All figures assume compliance with building regulations and bylaws.

Definitions of Insurance Cost Estimate Terms

The following information forms an integral part of the cost estimate on the preceding pages.

The following definitions apply to both examples in Addendums B and C.

Name of Client:

Normally the insured

Address:

Physical location, including street address at which the assets are situated

Asset Description:

General description giving sufficient detail to identify the range of assets encompassed in the cost estimate. Any exclusions should be noted.

Construction:

Includes details of the principal & ancillary structures and describes the main construction materials.

Upgrade Requirements:

Typically, it will be helpful to summarise major difference between the insured asset and the modern equivalent asset.

Age:

Estimated year of construction and dates of, or reference to any major additions and upgrades.

Use/Occupation:

Nature of main activity carried out at location. A separate schedule may be provided for multiple tenancy buildings.

Contour:

Valuer's classification of the land contour containing building and immediate yard areas:

1) Level.
2) Gentle.
3) Easy.
4) Medium.
5) Steep.
6) Other – as specified.

Subsoil Type:

As a geotechnical survey has not been undertaken the description is without prejudice and is based upon a visual inspection only.

Other Known Characteristics:

Additional information that assists in quantifying the parameters of the risk to be insured.

Reinstatement Estimate:

An estimate of the cost at the effective date (including relevant fees) of replacing the asset with a new modern equivalent asset, including, where appropriate, the use of current equivalent technology, material, and services. This is intended as a guide for the purpose of setting insurance premiums and, unless specified elsewhere, is not based on a detailed elemental and schedule of quantities approach as would be undertaken by a quantity surveyor or costing engineer. I n construction, unanticipated problems often arise, and actual rebuilding, repair or replacement costs may vary from the estimate. Geotech requirements for a replacement building may differ from those relating to the existing structure.

In the case of partial destruction, no specific allowance has been made for any additional requirements that any Council, Government, or other Authority may require as additional expenditure to upgrade, alter or amend the undamaged portion of the asset.

Reinstatement does not allow for cost escalation due to a catastrophic event causing a general or localised surge in demand for new assets or rebuilding/repairs. Where an asset has elements of an historic or heritage nature, unless otherwise specified, reinstatement does not include for reproduction of the existing asset with the original heritage features but allows for a modern asset of similar size.

Functional Replacement:

Where provided this is the estimated cost required to replace all assets to perform similar tasks but under optimum current design and lay-out conditions with capacity requirements not greater than currently available. The cost estimate of any partial loss has been disregarded in this context.

Inflationary Provisions:

This amount has been estimated based on a loss occurring on the last day of a 12-month insurance period, if appropriate.

Inflation provisions on Reinstatement and Functional Replacement estimates incorporate an allowance for the additional time required for damage inspections, demolition, preparation of new preliminary proposals and their approval by the Territorial Authority, preparation of working drawings and specifications, schedules of quantities, in addition to an estimated period of construction contract. No allowance is made for any delay due to the need to comply with the provisions of the *Resource Management Act*.

Inflationary provisions are future projections, based on recent trends and are given without prejudice. Inflation and in particular foreign exchange rate fluctuations affecting imported assets, are notoriously difficult to predict and the valuer cannot be responsible for any inaccuracy.

Market Related Indemnity Value:

Where provided this is an estimate of the loss that would be suffered by the insured in the event the asset was destroyed. This may be assessed using the market (sales comparison) approach, income approach or the depreciated replacement cost approach as appropriate.

Depreciated Replacement Cost:

This cost has been calculated utilising the estimated replacement cost allowing for normal physical depreciation only. If relevant it also takes due note of any significant upgrades or accelerated deterioration. This method is not market based and accordingly, the cost estimate may bear little relationship to the market value of the asset or the true insurable "indemnity value" as defined by case law. It is not an estimate of the loss that would be suffered by the insured if the asset were destroyed.

Demolition Estimate:

For cost estimates, it is assumed that 100% of the assets have been damaged beyond repair and have no salvage value.

Unless otherwise noted the Demolition Estimate covers the cost of demolition and removal of debris of the assets described only and excludes the cost of removal and disposal of any noxious materials or removal of debris from adjoining premises, unless otherwise specified.

The Demolition Estimate does not include shoring up any structures, either on the insured property, or neighbouring properties, or the removal of building contents.