

EXAMPLE

Property Replacement Cost Estimator (RCE) POC Results Preview

May 2024

Solving the Property Undervaluation & Premium Leakage problem
with active monitoring of Inflation & Commodity factors

Confianza Replacement Cost Estimator Advantage & Value Added

- Open, transparent model with Inflation/Commodity factors
 - Specific model associated with more than 300 property use categories.
 - Calculation specific to property use; building materials utilized, localized labor and taxation.
 - Consumes more than forty (40) property specific variables in the base calculation.
 - Geographic granularity, including local inflation factors & labor/material costs/availability.
- 2. Unique information sources enable validation of key inputs
 - Forecast of building material costs (lumber, steel, concrete, etc); use of M.L.S. and building permit data; identifies discrepancies and material improvements including square footage additions, building age, building quality, & condition.
- 3. Leverage Confianza RCE solution across the entire policy lifecycle
 - **New Business Point of Sale:** An accurate RCE at point of quote / policy inception; includes estimates of contents, demolition; debris removal; builders profit; etc.
 - **Endorsement:** validate the pending changes; fix and incorporate other exceptions.
 - **Renewal:** Batch processing on weekly/monthly basis prior to renewal.
- 4. Active, On-going Monitoring and Refresh frequency
 - Monthly or Quarterly monitoring of Construction costs / inflation
 - Continuous refinement and recalibration

Confianza Recommended Proof of Concept Process

- Demonstration of Confianza advantage & value added.
- Additional points of interest - detailed “location specific” risk analysis.
- Input File Analysis
 - *Analysis of address quality and property “Use” type.*
 - *Distribution by Policy Initiation Year.*
 - *Leverages multiple listing service data (2014 to current) for added fidelity.*
 - *Match Type Analysis.*
 - *Match Score Analysis.*
 - *Distribution by State.*
 - *Incorporation of building permit detail.*
 - *Ability to reverse engineer prior periods (building material history back to 1980).*
- Risk analysis
 - Human risk (comparison of multiple crime indicators, FBI vs NIBRS¹).
 - Natural risk analysis, details regarding more than sixty (60) natural risk characteristics.
- Impact of residential labor rates (*year over year growth*)².

**Note 1: We have experienced much better signaling and correlation to claims with NIBRS as compared to FBI.*

2: Confianza leverages national county labor rates in our RCE calculation.

EXAMPLE POC Review

- Proof of Concept Results
- Methods and Approach
- Impact of COVID
- Results - Compounding Effect of Lost Premium
- Conclusion, Recommendations, and Next Steps
- Additional Information of Interest
- Index/Description of Workbook Tabs (detailed output)
- Questions & Comments

Example Proof of Concept Results Summary

Typical POC Scope-1,000 records. Larger Scope to be discussed.

- 98.4% records located (rooftop); geocode errors identified.
- 94.2% records with a “perfect” match score.
- Policy effective dates ranged from 2020 to 2024.
- Year built range 1820 to 2020, properties identified when found in the historic registry.
- 96.7% derived square footage.
- 94.3% calculated RCE.
- 31.4% policies had building permits, 27.9% issued after policy effective date indicating high potential for rating changes.

Description of Methods and Approach¹

1. 1,000 records provided. (Larger scope to be discussed)
2. Execute address scrubber; Perform Initial Load.
3. Append property details and associated risk data.
Human risk (Crime Natural risk, Fire protection, Emergency services (police and urgent care facilities), FEMA, Weather, & MLS).
4. Calculate RCE Based on Current Data (data as of 4/30/2024).
5. Leverage Commodity and Inflation Indices to reverse engineer prior periods²:
 - As of initial policy initiation date.
 - As of beginning of COVID (3/11/2020).
 - As of end of COVID (5/5/2023).
 - As of 4/30/2024.
 - Forecasted 90 days into the future (7/30/2024).
 - Forecasted 180 days into the future (10/31/2024).
7. Create RCE Comparison
8. Additional RISK insights.

¹ *This example was a demonstration of Confianza's reverse engineering capabilities to perform an impact of COVID on the property markets.*

² *Assumes comparison to a CPI like adjustment.*

Confidential Information

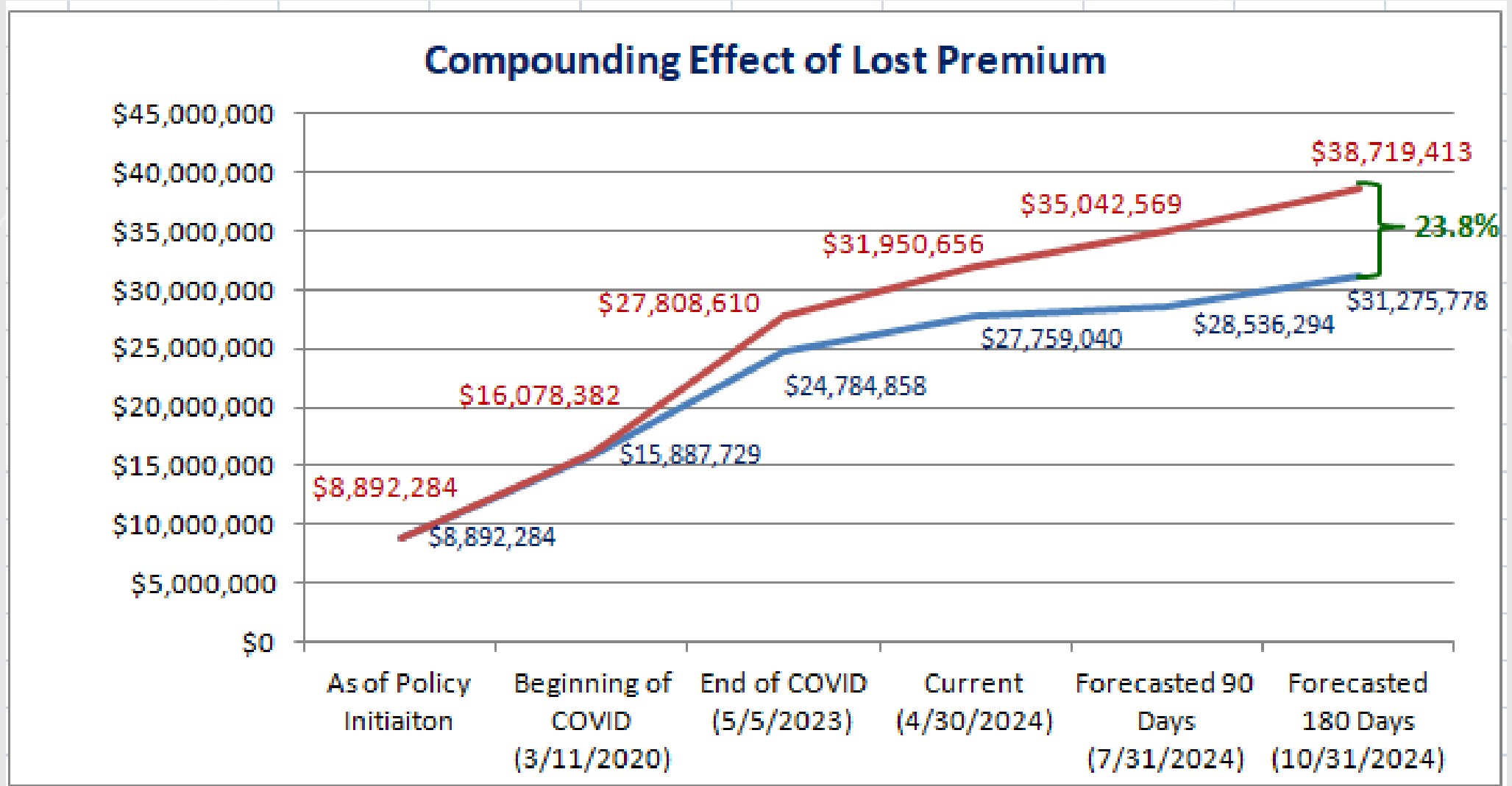
Impact of COVID (and Beyond)

- COVID had a significant impact on material costs, supply chain & availability, and labor rates.
- Growth in material cost has returned to more “normal” levels, but have not reduced to historic levels; Q1 growth in material prices have returned to pre-COVID levels (~3%), but our models indicate that growth in Q2 will accelerate (9+%).
- Labor remains scarce and labor rates remain higher than normal.

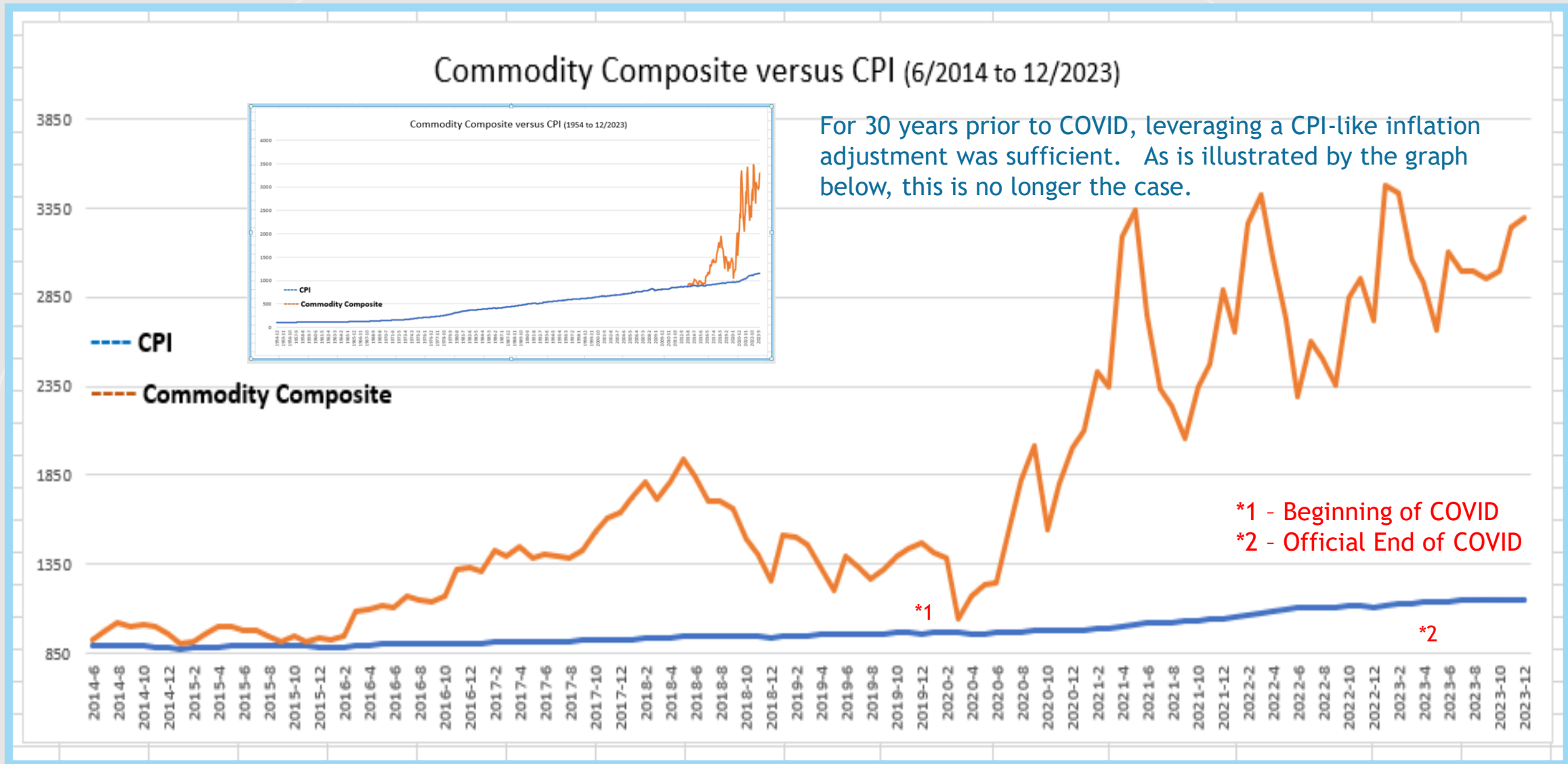
Notes:

1. Six points in time: at Policy Inception, Pre COVID, Post COVID, 4/2024, 7/2024, 10/2024
2. Pre to post COVID time segment reflects 88% increase, attributable to changes in materials and labor along with disruption in supply chain; recent commodities prices have moderated but have **NOT** returned to historical levels.

Results: Cumulative Effects of Lost Premium due to property under valuation



Confidential Information Impact of COVID on Building Materials



Example Conclusion, Recommendations & Next Steps

1. Immediately begin “batch” processing of pending renewals; identify / resolve potential rating issues and re-value reconstruction costs.
2. Begin real-time integration with Confianza API for point of sale / initial quote implementation. In the interim leverage “batch” to calculate and identify material discrepancies for adjustment during the “underwriting” period.
3. Establish an “analytical” relationship between Confianza and your data science team to assess the impact and integration of the ancillary “risk” data that is available.
4. Engage Confianza to perform additional analytics.

Note: Confianza proposes the active monitoring changes in the market and re-calibration.

Additional Information of Interest

Summary of Analysis Results

1. RCE Calculation adjustments:

- Four (4) sources polled for square footage, vendor, MLS, curate, other
- Adjustment for building condition
- Adjustment for Building Quality
- Adjustment for Building Age
- Adjustment for Specialized materials
- Adjustment for Energy (transportation) and taxation of materials
- Adjusted for Local (county) construction Labor rates

2. Cost/Square Foot

Calculated on 956 (95.6%) of records; values ranged from \$54.54 (parking lot) to \$385.22 (high end Single Family Residence)

3. Replacement Cost Statistics

943 (94.3%) policies with a current RCE Calculation ranging from \$48,989 to \$11,059,074 (average \$335,825) spanning 32 distinct property use types.

Additional Information of Interest

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Other Points of Interest

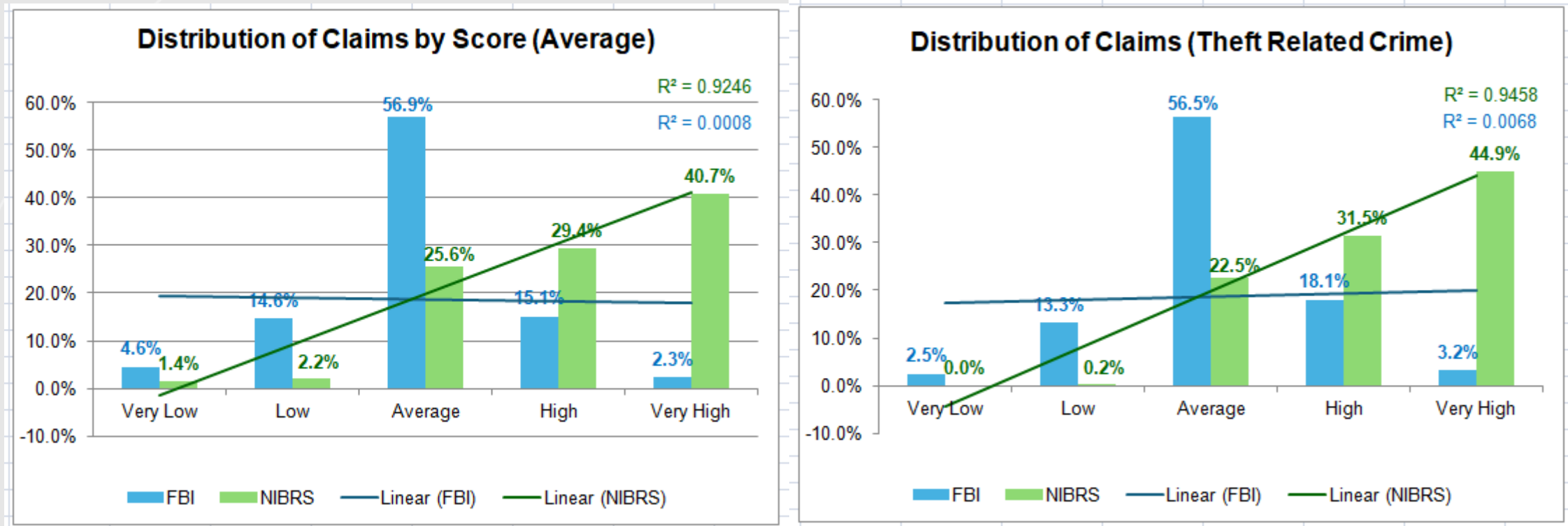
Detailed / Specific Natural Risk Assessment

Asbestos	Fire Protection
866 Low/Very Low	942 Low/Very Low
74 Average	52 Average
59 High/Very High	42 High/Very High
Catastrophic Flood	Flood
603 Low/Very Low	556 Low/Very Low
63 Average	64 Average
332 High/Very High	379 High/Very High
Earthquake	Wildfire
310 Low/Very Low	831 Low/Very Low
216 Average	94 Average
472 High/Very High	74 Very High

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Other Points of Interest

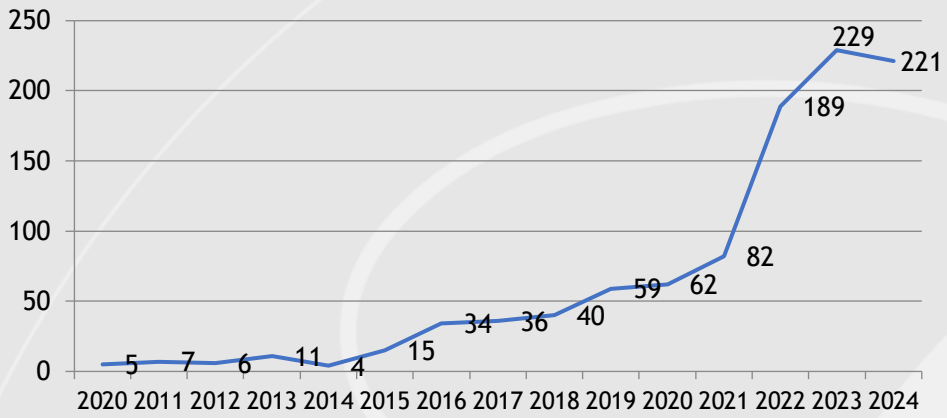
NIBRS Crime outperforms FBI Crime with more granularity



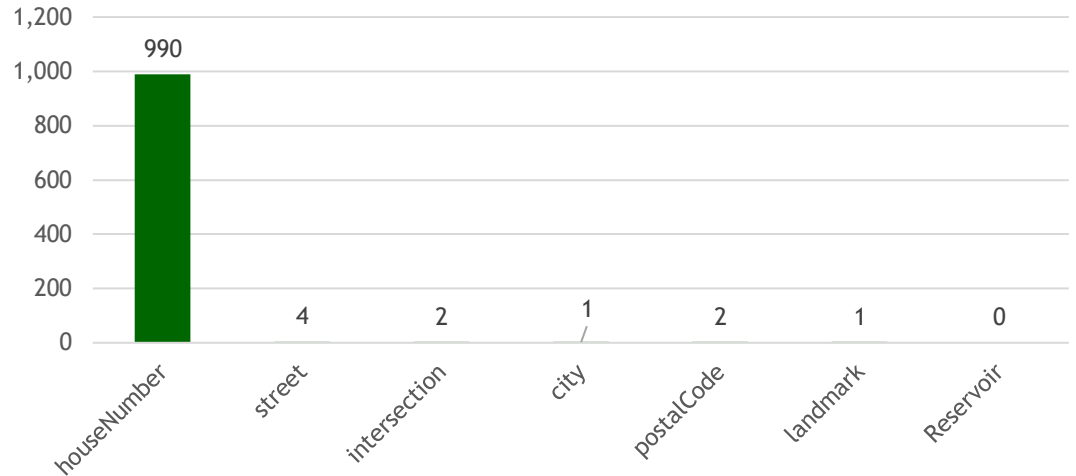
** Note: Confianza curates NIBRS Crime, summarized at the ZIP+4 level, includes ALL crime, not just what is adjudicated.*

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Input File Analysis

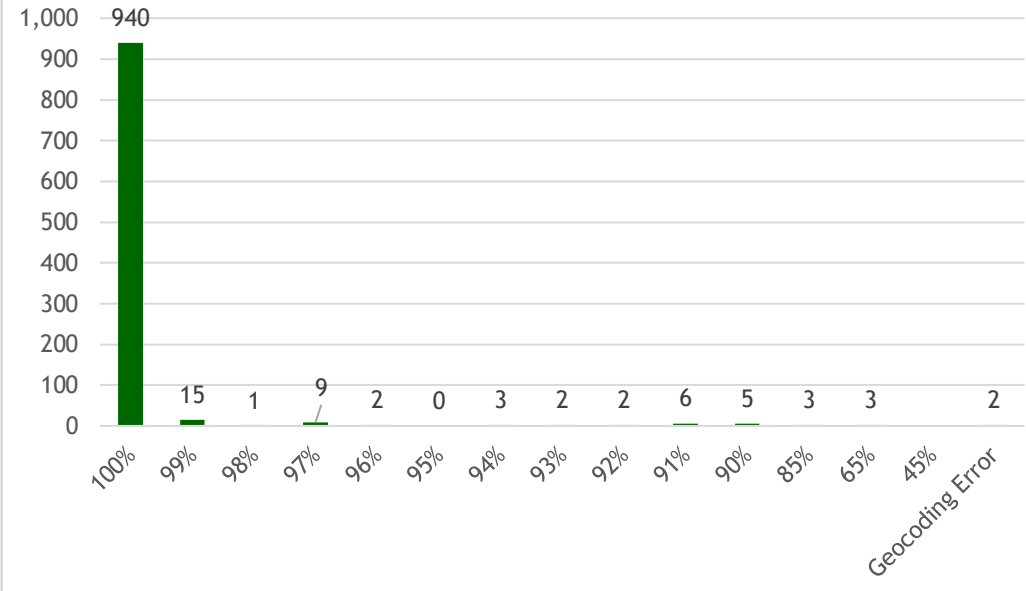
Policy Initiation Year Distribution



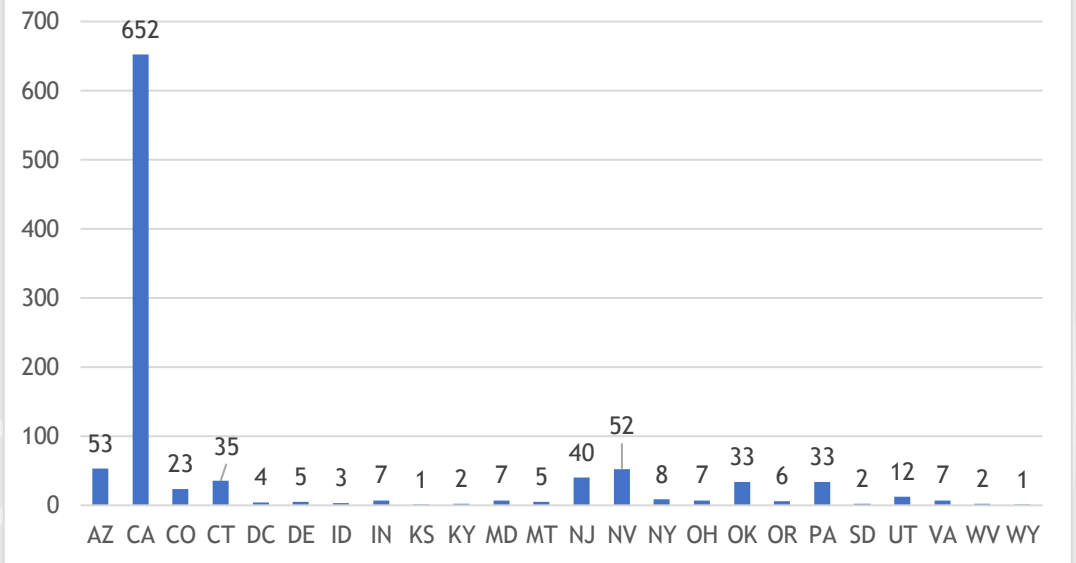
Match Type Distribution



Match Score Distribution

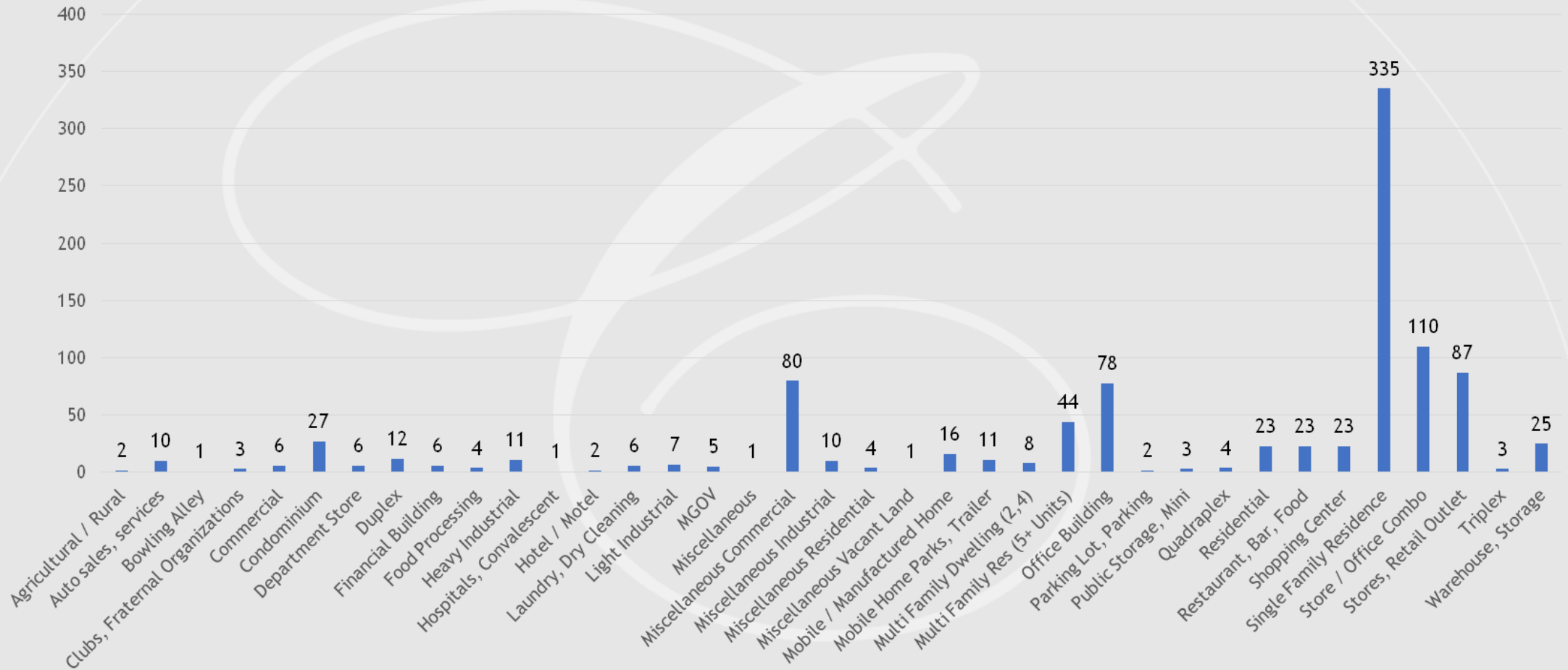


State Distribution

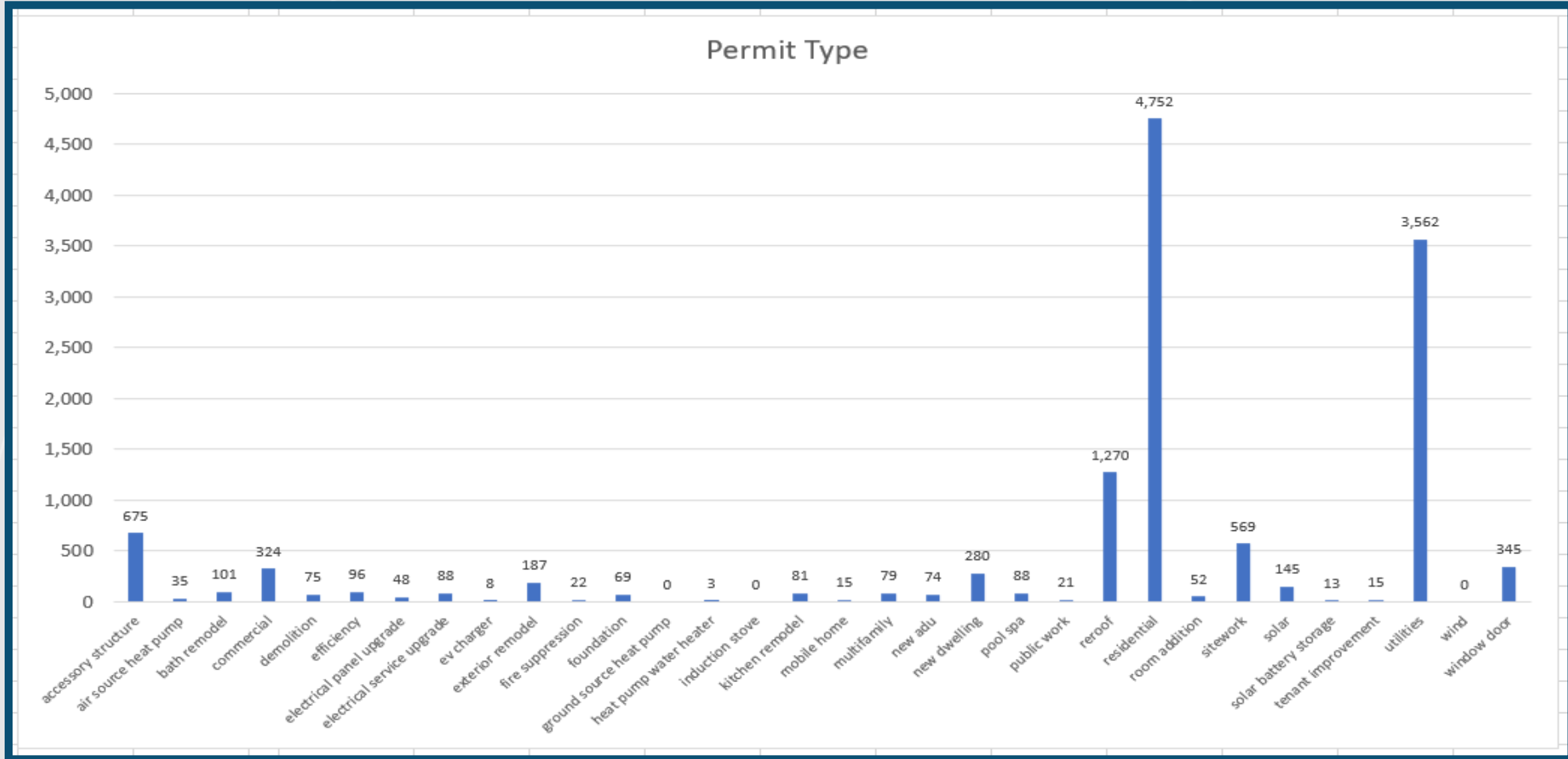


Input File Analysis - Property Use Type Distribution

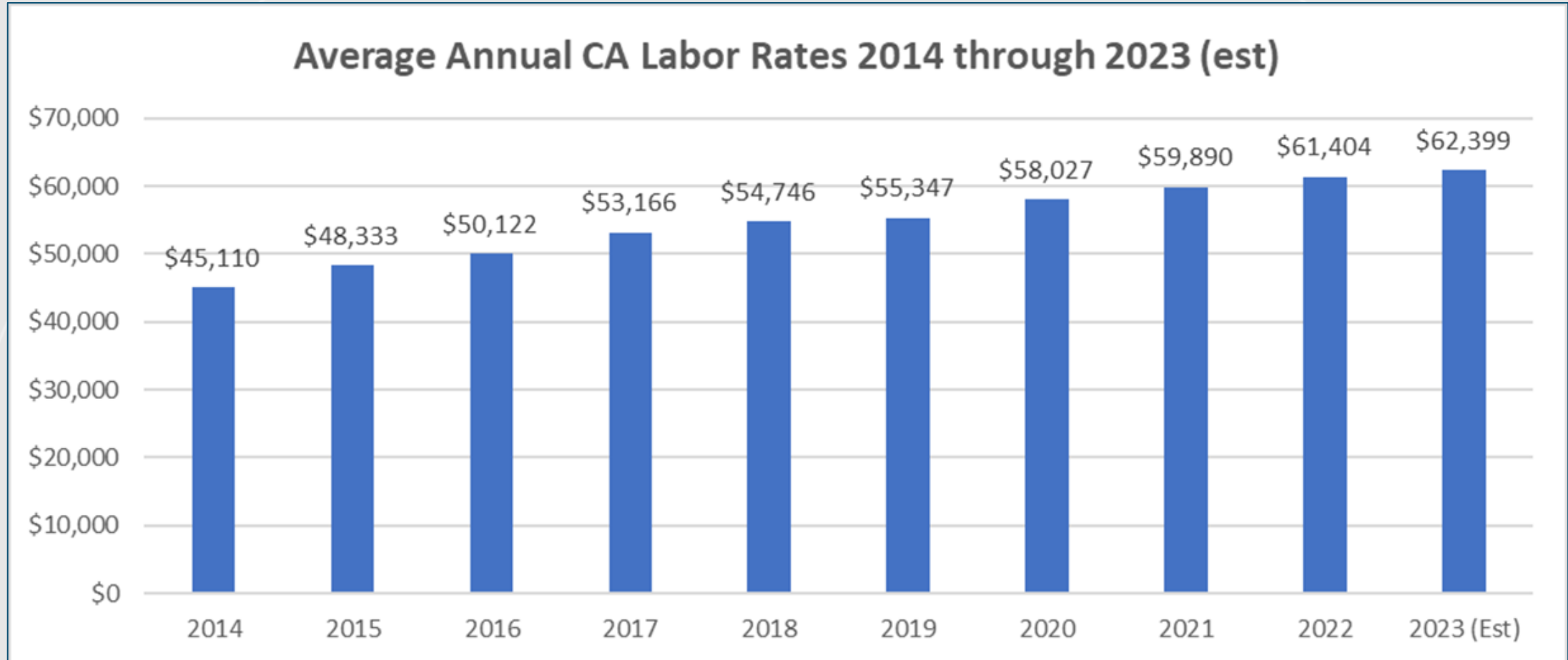
Property Use Type Distribution



Input File Analysis - Building Permit Analysis

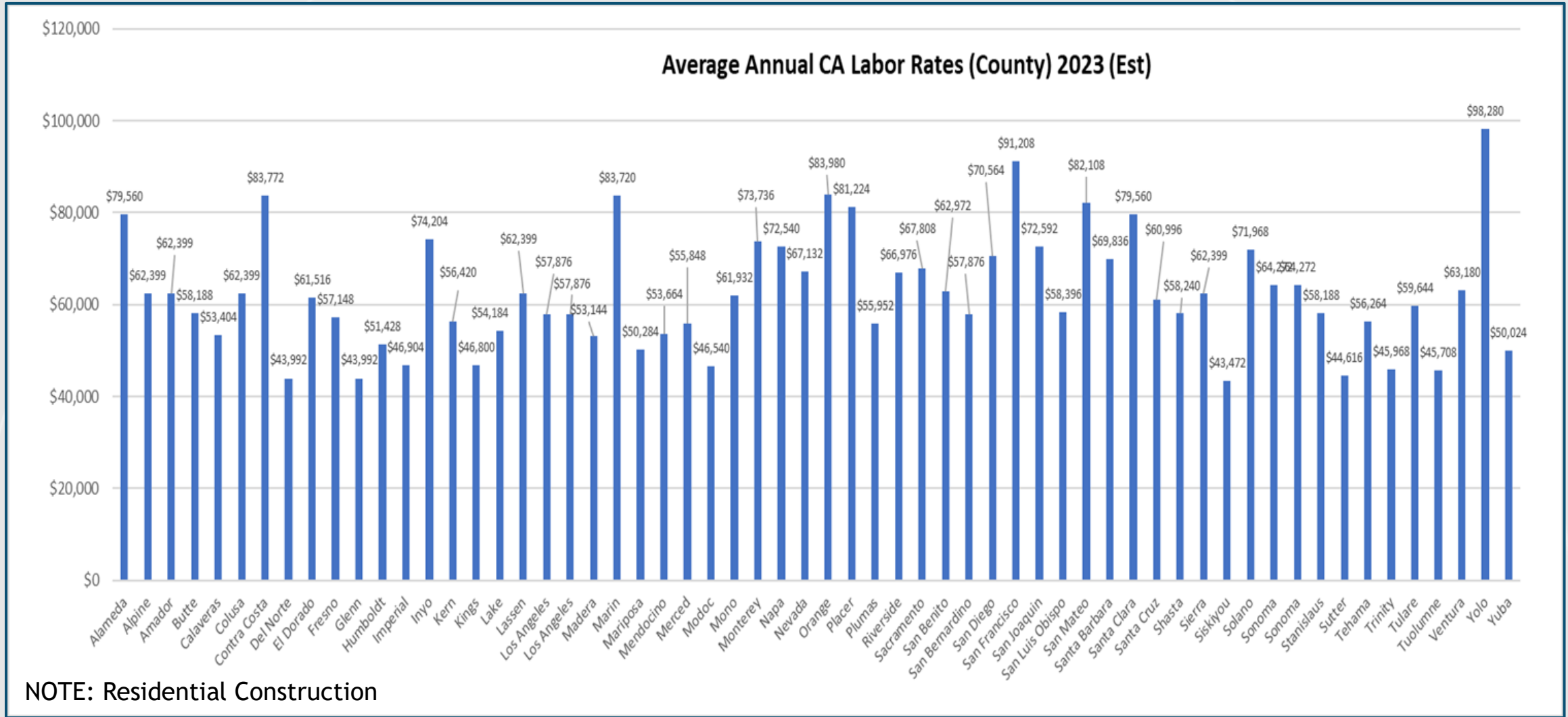


Labor Rate Analysis - CA Year over Year Analysis



NOTE: Average Annual CA Residential Construction Wages by Year

Labor Rate Analysis - All CA Counties



Proof of Concept Workbook

Legend of Detailed Results Tabs

- **Summary Metrics** - notable statistics and graphs
- **Property Index** - summary of match statistics, latitude/longitude, and rooftop
- **Property Details** - detailed property characteristics
- **RCE** - current period estimate (January 2024) with pertinent variables
- **RCE - Comparisons** - calculation / comparison of multiple periods
- **Risk Summary** - risk summary, heat map of human and natural risk by policy
- **Natural risk** - detailed natural risk with details
- **Fire Protection** - detailed fire protection (up to three closest responders)
- **FBI Crime** - crime statistics (as reported by the FBI)
- **NIBRS Crime (at Zip9)** - crime statistics as calculated at the Zip+4
- **Emergency services** - detailed fire station, police, and emergency care
- **Weather** - detailed address level weather characteristics
- **FEMA** - address level Federal Emergency Management Administration
- **Images** - listing details from MLS
- **MLS** - pictures from MLS listings

Legend of Detailed Results Tabs

- **Permit Summary**- summary of permit activity
- **Permit Detail**- detailed permit data associated with the address provided
- **Effective Date Analysis** - summary of policy effective dates (year/month)
- **Multiple Addresses** - summary of policies with address ranges indicated
- **Inflation Adjustments** - tab detailing CPI, Lumber, Steel, Concrete, and a building material composite (calculated index values, December 1954 is the baseline)
- **Labor Rates (National)** - detailed labor rates by county (from 2014 through Q2 2023)
- **Graphs** - interesting graphs
- **COVID Timeline** - COVID graphic
- **Input** - original input data
- **RCE “Adjustment” Factors** - other RCE factors
- **Math (Confianza Internal)** - other tab containing math used for other tabs

Questions & Comments

Thank you!!!

On March 11, the WHO declared COVID-19 a pandemic. Here is a look back at a year in disruption.

A MYSTERIOUS NEW ILLNESS

Images appear of Wuhan in lockdown, where officials attempt to contain a mysterious virus. Soon after, new cases of and deaths related to (what's later named) COVID-19 surge in Europe.

THE WORLD SHUTS DOWN

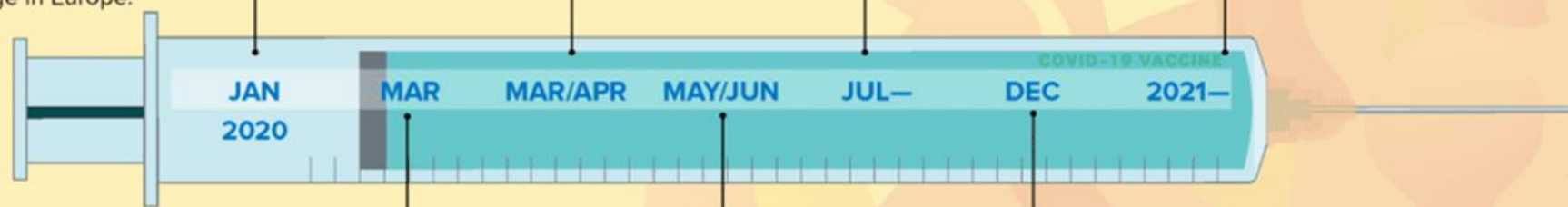
Countries seal borders; sports teams cancel seasons; schools close and employees go home. People start wearing masks and "social distancing."

UPTICK IN MENTAL HEALTH ISSUES

People struggle as continued unemployment and/or working from home without childcare/school takes its toll. U.S. break records for daily cases/deaths.

LIGHT AT THE END OF THE TUNNEL?

2021 begins with a race to vaccinate. Cases and deaths begin to fall. But the variants are still a threat, vaccine rollout is uneven, and we are still wearing masks.



THE VIRUS SPREADS, CASES MULTIPLY

The Grand Princess cruise ship, docked outside of San Fran, has passengers with COVID-19; Bay Area is first in the U.S. to announce shelter-in-place orders; hospitals become overwhelmed as cases grow; there is a nationwide shortage of PPE.

FLATTENING THE CURVE—FOR A WHILE

After "flattening the curve," cases begin to skyrocket again as states "reopen" in different phases. Researchers continue to race to identify treatments and make vaccines.

NEW HOPE, NEW MUTATIONS

The FDA authorizes two vaccines. Major variants begin to circulate, some of which might impact the effectiveness of vaccines.

May 5, 2023 - WHO says Covid-19 is no longer a global health emergency.