



Replacement Cost v. Reconstruction Cost and Insuring to Value

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Independent Claims Service, Inc.



REPLACEMENT COST
V.
RECONSTRUCTION COST
V.
TOTAL COMPONENT VALUATION
IS THE CLIENT COVERED
EFFECTIVELY

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With special thanks to the Insurance Services Office, Inc. for advance information, continued support, and permission to use their forms and information.

Valuation – what do we use

**What valuation process do we
use?**



Valuation – what do we use

**Policies – commercial or personal
use the terms**

Replacement cost

Replacement cost NEW ... cost to replace the entire
building of equal quality and utility

Actual cash value

Replacement cost minus depreciation

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Valuation – what do we use

R/C and ACV ...

are based on

“as was”

**The old “unit count” costimators or
“square foot costimators” addressed the
Replacement cost valuation process**

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Valuation – what do we use

MSB ...no longer advises R/C

MSB supports

“reconstruction costs”



Which makes sense ...because ...

it costs more to rebuild something that is already there ...then to create it new

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Valuation – what do we use

According to THEIR (MSB) article

Replacement Cost New is defined as the cost to replace an entire building with one of “equal quality and utility.”

Replacement costs, often calculated using outdated square- foot or unit-count methods, are based on prices for labor, materials, overhead, profit and fees that are in effect prior to the loss.

Replacement costs assume that modern materials and current methods, designs and layouts will be used to replace the building.

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Valuation – what do we use

The article then said this regarding reconstruction costs

In contrast,

Reconstruction Cost
provides the cost to construct, at current prices, an exact duplicate or replica of the building,

using like kind and quality materials, construction standards, design, layout and quality of workmanship.

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Valuation – what do we use

The article then said this regarding reconstruction costs

Because it might be impossible,

impractical or unacceptable to use the materials or methods used in the original construction,

“equal quality and utility” may be substituted where necessary for “like kind and quality.”

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Valuation – what do we use

Reconstruction Cost also includes site-specific and process-related costs and fees not included in Replacement Cost New valuations, such as:

current building codes

reuse of building components or mechanical systems below grade level

loss of economies of scale associated with new construction

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Valuation – what do we use

Reconstruction Cost also includes site-specific and process-related costs and fees not included in Replacement Cost New valuations, such as:

extra costs due to site accessibility

costs of demolition or debris removal

higher labor costs and premium prices for materials

extraordinary fees and other contingencies

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Valuation – what do we use

Because Reconstruction Cost is more comprehensive than Replacement Cost New,

it is a better representation of what a carrier may expect to pay following a loss,

and thus the most reliable valuation method for determining Insurance to Value at policy inception or renewal.

Valuation – what do we use

Many agents have felt that the values of buildings have become “whacked” –

Which probably shows that the carrier has SWITCHED to Reconstruction from replacement value ...valuation



Valuation – what do we use

**Reconstruction costs certainly make the insured
“more accurately valued”**



**And provides the premium necessary for
companies to have the dollars to pay claims.**

**Remember ...most losses are PARTIAL ...
and we need a certain amount of premium to pay
them ...**

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Valuation – what do we use

**Interesting though ...
it appears that some of the Reconstruction cost ...
is also adding in building code issues ...
hmmmmmmmm**

***Residential
MS/B's Residential Component Technology™
(RCT) home valuation application is a total
component application. Based on the age of a
home, RCT for mainstreet homes RCT's
knowledge tables select building costs
associated with materials and construction
methods used when the home was built. (See
“Vintage Differences.”)***

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Valuation – what do we use

Interesting though ...
it appears that some of the Reconstruction cost ...
is also adding in building code issues ...
hmmmmmmmm

Residential

Because the home must be built to today's codes,
other knowledge tables factor in costs associated
with current building codes for glazing, electrical,
plumbing, etc., all localized to the U.S. ZIP Code
and the Canadian Postal Code.

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Valuation – what do we use

And ...in another statement....and article

Today,
"total component" technology uses
formulas and databases to analyze and
select detailed component parts of
buildings to assemble estimates in a risk-
specific manner,
using localized building codes, structural
considerations and local labor and
material costs.

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Valuation – what do we use

This article shows a comparison of RCT v. the antiquated R/V square foot method

Building Code Changes

Square Foot Method

♦The costs you receive represent building codes in effect at the time specifications were created. This may result in a less accurate replacement cost.

“Total Component” Method:

♦Based on the U.S. ZIP Code or Canadian Postal Code entered, the system incorporates the local building code requirements and all of the elements needed to calculate the local reconstruction cost, essentially “rebuilding” the residence from start to finish.

If the valuation method assumes local building code requirements ... perhaps the exclusion should be removed from the policy now that we value differently???

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Valuation – what do we use

Location Adjustments for Seismic, Climatic and High Wind

Square Foot Method:

♦Because this method relies upon a fixed set of building specifications, it cannot accurately adjust for climatic, seismic, or wind requirements.

“Total Component” Method:

♦Based on U.S. ZIP Code or Canadian Postal Code, the system is designed to calculate a reconstruction cost that includes local and up-to-date seismic, climatic and high wind requirement determinants.

If the valuation method assumes local building code requirements regarding earthquake and wind requirements ...

should the ordinance or law exclusion apply to GENERIC ordinances???

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Valuation – what do we use

Various Age Groups

Square Foot Method:

♦The nation's property stock is divided into three age groups: Post 1980, Pre-1980, and Pre-1940. These classifications are too broad to use for accurate valuations and do not adequately account for changes in building methods or practices used in each era.

“Total Component” Method:

♦Instead of using age groups, the “total component” method utilizes the exact Year Built. The system needs to know when the structure was built before it can select the proper components.

If this process knows the exact year of building and therefore the construction methods of the time ...

And then converts to current rebuilding codes “knowing” that the building inspectors will require ...

should ordinance or law language change?

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Valuation – what do we use

Let's look at the policy ...and see

If we have a PROBLEM

Between

VALUATION

Policy limit....

And policy language



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Is replacement cost enough?

First ...



let's look at what the policies
cover...
don't cover...
could cover...

and then



We'll look at how we arrive at the building
value – and what THAT contemplates
covering

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Is replacement cost enough? Personal Lines

When there is a building loss to a 1-4 family
home what does the ISO HO and DP policy pay?

ISO HO-2000 and DP-2002 (similar language
earlier HO and DP forms) states if carry 80% R/C
value at time of loss ...we'll pay the least of:

- (1) The limit of liability under this policy that applies to the building;
- (2) The replacement cost of that part of the building damaged with material of like kind and quality and for like use; or
- (3) The necessary amount actually spent to repair or replace the damaged building.



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Is replacement cost enough? Personal Lines

The insurance “motto” is ...if it ain’t broke we don’t fix it



And

Replacement cost ...though not defined ...is considered to be

what you had is what you get but “new”



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Is replacement cost enough? Personal Lines

We ONLY respond to

That part of the buildingDAMAGED

for LKQ



like kind and quality and use

But ...in case you DON'T understand this ...we also state....

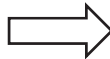
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The newest HO and DP forms start the loss settlement provision with a “reminder” that ordinance or law is excluded

C. Loss Settlement

In this Condition C., the terms "cost to repair or replace" and "replacement cost" do not include the increased costs incurred to comply with the enforcement of any ordinance or law, except to the extent that coverage for these increased costs is provided in E.11. Ordinance Or Law under Section I – Property Coverages. Covered property losses are settled as follows:

And ...the HO and DP forms have Section I or General Exclusion for ordinance or law



To the extent the Additional Or Other Coverage section does NOT apply

1. Ordinance Or Law

Ordinance Or Law means any ordinance or law:

- a. Requiring or regulating the construction, demolition, remodeling, renovation or repair of property, including removal of any resulting debris. This Exclusion A.1.a. does not apply to the amount of coverage that may be provided for in E.11. Ordinance Or Law under Section I – Property Coverages;
- b. The requirements of which result in a loss in value to property; or
- c. Requiring any "insured" or others to test for, monitor, clean up, remove, contain, treat, detoxify or neutralize, or in any way respond to, or assess the effects of, pollutants.

Pollutants means any solid, liquid, gaseous or thermal irritant or contaminant, including smoke, vapor, soot, fumes, acids, alkalis, chemicals and waste. Waste includes materials to be recycled, reconditioned or reclaimed.

This Exclusion A.1. applies whether or not the property has been physically damaged.

Is replacement cost enough? Personal Lines

The ISO HO and DP forms provide 10% ADDITIONAL value in certain ordinance or law values

11. Ordinance Or Law

- a. You may use up to 10% of the limit of liability that applies to Coverage A for the increased costs you incur due to the enforcement of any ordinance or law which requires or regulates:
- (1) The construction, demolition, remodeling, renovation or repair of that part of a covered building or other structure damaged by a Peril Insured Against;
 - (2) The demolition and reconstruction of the undamaged part of a covered building or other structure, when that building or other structure must be totally demolished because of damage by a Peril Insured Against to another part of that covered building or other structure; or
 - (3) The remodeling, removal or replacement of the portion of the undamaged part of a covered building or other structure necessary to complete the remodeling, repair or replacement of that part of the covered building or other structure damaged by a Peril Insured Against.

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Is replacement cost enough? Personal Lines

It can be used to remove debris when you need to
1) upgrade/remodel and repair damaged portions

2) upgrade non-damaged portions

11. Ordinance Or Law

- a. You may use up to 10% of the limit of liability that applies to Coverage A for the increased costs you incur due to the enforcement of any ordinance or law which requires or regulates:
- (1) The construction, demolition, remodeling, renovation or repair of that part of a covered building or other structure damaged by a Peril Insured Against;
 - (2) The demolition and reconstruction of the undamaged part of a covered building or other structure, when that building or other structure must be totally demolished because of damage by a Peril Insured Against to another part of that covered building or other structure; or
 - (3) The remodeling, removal or replacement of the portion of the undamaged part of a covered building or other structure necessary to complete the remodeling, repair or replacement of that part of the covered building or other structure damaged by a Peril Insured Against.

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Is replacement cost enough? Personal Lines

It can be used to remove debris when you need to

3) remove undamaged portions that had to be demolished

11. Ordinance Or Law

a. You may use up to 10% of the limit of liability that applies to Coverage A for the increased costs you incur due to the enforcement of any ordinance or law which requires or regulates:

- (1) The construction, demolition, remodeling, renovation or repair of that part of a covered building or other structure damaged by a Peril Insured Against;
- (2) The demolition and reconstruction of the undamaged part of a covered building or other structure, when that building or other structure must be totally demolished because of damage by a Peril Insured Against to another part of that covered building or other structure; or
- (3) The remodeling, removal or replacement of the portion of the undamaged part of a covered building or other structure necessary to complete the remodeling, repair or replacement of that part of the covered building or other structure damaged by a Peril Insured Against.

Is replacement cost enough? Personal Lines

This 10% can also be used for debris removal of these costs

b. You may use all or part of this ordinance or law coverage to pay for the increased costs you incur to remove debris resulting from the construction, demolition, remodeling, renovation, repair or replacement of property as stated in a. above.

c. We do not cover:

- (1) The loss in value to any covered building or other structure due to the requirements of any ordinance or law; or
- (2) The costs to comply with any ordinance or law which requires any "insured" or others to test for, monitor, clean up, remove, contain, treat, detoxify or neutralize, or in any way respond to, or assess the effects of, pollutants in or on any covered building or other structure.

Pollutants means any solid, liquid, gaseous or thermal irritant or contaminant, including smoke, vapor, soot, fumes, acids, alkalis, chemicals and waste. Waste includes materials to be recycled, reconditioned or reclaimed.

This coverage is additional insurance.

Is replacement cost enough? Personal Lines

But ...just a reminder from the Section I/General

Exclusions ...it can NEVER be used for

1) loss in value

2) costs to comply with clean up of pollutants (when there was no otherwise covered loss)

b. You may use all or part of this ordinance or law coverage to pay for the increased costs you incur to remove debris resulting from the construction, demolition, remodeling, renovation, repair or replacement of property as stated in a. above.

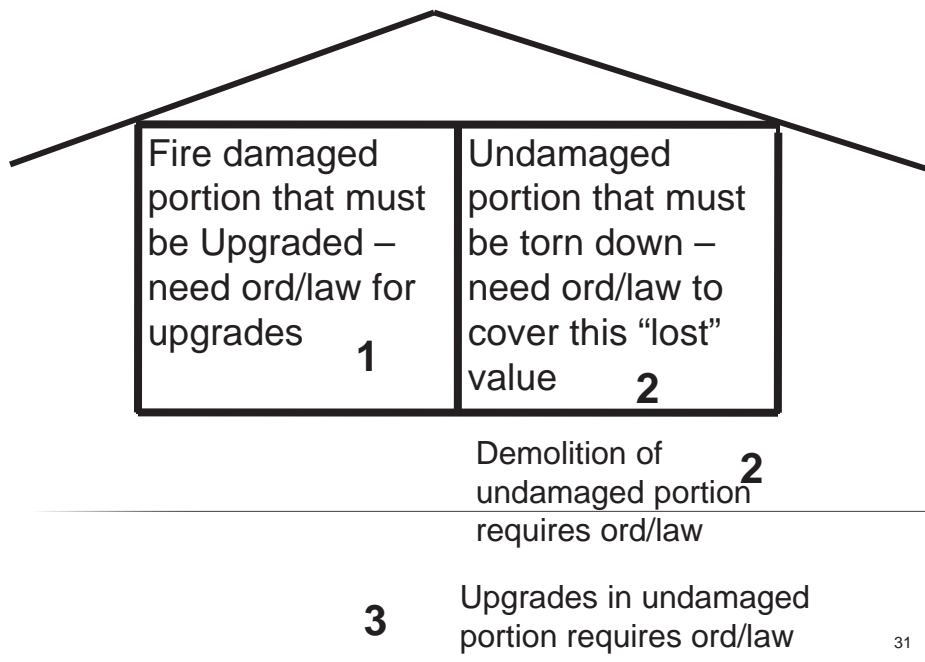
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This coverage is additional insurance.

SECTION I – Add'l Coverages or DP Other Coverages



So ... on a large loss ... where the “free” 10% of ordinance or law is not sufficient to apply to that portion of the loss that does not fit “neatly” into the

Damaged property



Being repaired by LIKE construction

Having the original limit of insurance on Coverage A at replacement cost is immaterial

oh oh



You needed additional Ordinance or law coverage

**Which requires an endorsement...
and you have to pick how much “ordinance coverage” % you want ...**

So ...where is YOUR crystal ball????




Is replacement cost enough? Personal Lines

POLICY NUMBER: _____ HOMEOWNERS
HO 04 77 10 00

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

**ORDINANCE OR LAW
INCREASED AMOUNT OF COVERAGE**

SCHEDULE*

New Total Percentage Amount: 

*Entry may be left blank if shown elsewhere in this policy for this coverage.

**SECTION I – PROPERTY COVERAGES
ADDITIONAL COVERAGES**

11. Ordinance Or Law
The total limit of liability that applies:

a. To Coverage A, or

b. For Form HO 00 04, to Building Additions And Alterations;
is increased from 10% to the percentage amount shown in the Schedule above.
This is Additional Coverage 10. in Form HO 00 06.
All other provisions of this policy apply.

DP 04 71 for Dwelling Fire similar

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Is replacement cost enough? Personal Lines

**My feeling ...if you're going to buy it
why not 100% of Coverage A ...**



**and more if you are subject to “unusual” and
specific ordinances like
set back clauses
or
flood zoning ordinances**

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Is replacement cost enough? Personal Lines

Once you buy the HO endorsement the “free” 10% is gone ...and gets “sucked into” the new percentage purchased

B. Increased Amount Of Coverage		
2. Premium Determination		
a. Forms HO 00 02, HO 00 03 And HO 00 05		
Percentage Of Coverage A		
Increase In Amount	Total Amount	Factors
15%	25%	1.03
40%	50%	1.07
65%	75%	1.11
90%	100%	1.15
For each add'l 25% increment, add:		.04



At ISO rating ...100% ordinance is a 15% base premium charge – less for most companies

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Is replacement cost enough? Personal Lines

Once you buy the DP endorsement the “free” 10% is gone ...and gets “sucked into” the new percentage purchased – DP rates higher than HO rates

Then multiply that result by .30.

(2) DP 00 02 Or DP 00 03 – Fire, Broad Or Special Forms

The premium is computed by multiplying the Base Premium by the appropriate factor selected from the following table:

Percentage Of Coverage A		
Increase In Amount	Total Amount	Factors
15%	25%	1.05
40%	50%	1.12
65%	75%	1.20
90%	100%	1.27
For each add'l 25% increment, add:		.08



At ISO rating ...100% ordinance is a 27% base premium charge

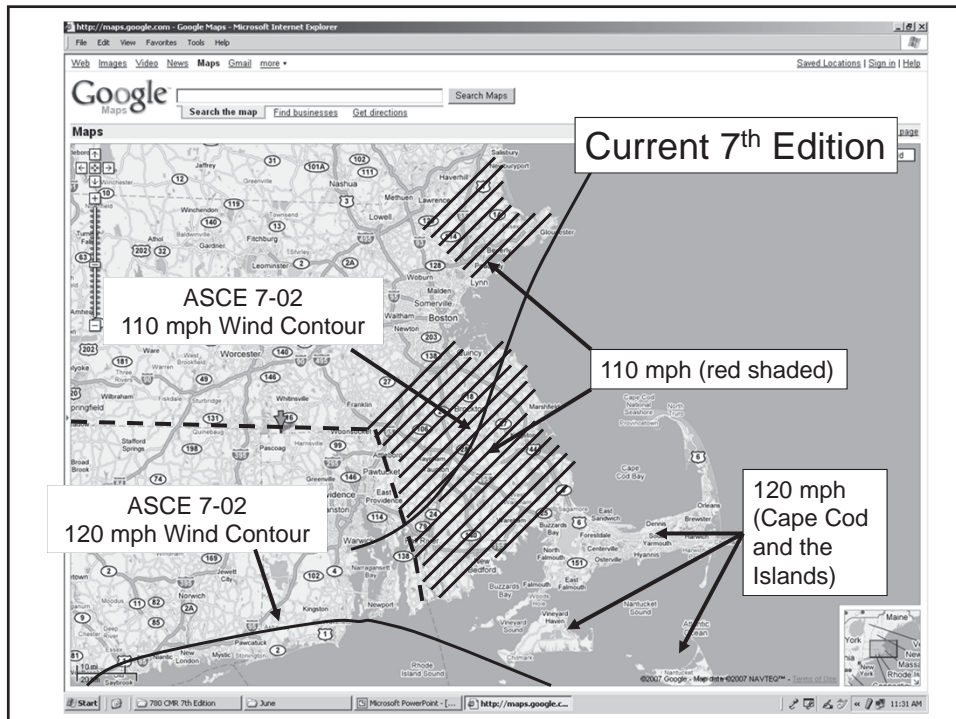
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When discussing ordinance or law ...2008 changes for dwellings include

as of last year there is a new wind resistive code for windows - depending on where the home is located will depend on the wind resistive requirement



updated "snow load" requirements



In Chapter 53 Delete TABLE 5301.2(4) and replace with this table

<90 MPH	90 MPH	100 MPH	110 MPH		
Adams	Acton	New Braintree	Abington	Melrose	Acushnet
Alford	Agawam	Marlborough	Amesbury	Mendon	Aquinnah
Ashfield	Amherst	New Salem	Andover	Memmac	Barnstable
Becket	Ashburnham	North Brookfield	Andover	Middleton	Bourne
Barnardston	Ashby	Northampton	Ashland	Milford	Brewster
Buckland	Athol	Northborough	Attleboro	Mills	Carver
Cheshire	Auburn	Northfield	Avon	Milville	Chatham
Clarksburg	Ayer	Oakham	Bedford	Milton	Chilmark
Colrain	Barre	Orange	Bellingham	Nahant	Dartmouth
Cummington	Belcherstown	Otis	Belmont	Natick	Dennis
Dalton	Berlin	Palmer	Berkley	Needham	Duxbury
Egremont	Blairford	Paxton	Beverly	Newbury	Eastham
Florida	Bolton	Pelham	Billerica	Newburyport	Edgartown
Great Barrington	Boxborough	Pepperell	Blackstone	Newton	Fairhaven
Greenfield	Boylston	Petersham	Boston	Norfolk	Fall River
Hancock	Brewfield	Phillipston	Boxford	North Andover	Falmouth
				North	
Havley	Brookfield	Princeton	Braintree	Attleborough	Freetown
Heath	Carlisle	Royalston	Bridgewater	North Reading	Gay Head
Hinsdale	Charlton	Russell	Brookline	Northbridge	Gosnold
Lanesborough	Chelmsford	Rutland	Brookline	Norton	Halifax
Lee	Chester	Sandisfield	Burlington	Nonvill	Hanrath
Lenox	Chesterfield	Shelby	Cambridge	Nonwood	Kingston
Leyden	Chicopee	Shrewsbury	Canton	Oxford	Lakeville
Middlefield	Clinton	Shutesbury	Chelsea	Peabody	Marion
Monroe	Conway	South Hadley	Chasset	Plainville	Marshfield
Montevy	Deerfield	Southampton	Concord	Quincy	Marshpee
Mount					
Washington	Dracut	Southbridge	Danvers	Randolph	Mattapoisett
New Ashford	Dunstable	Southwick	Dedham	Raynham	Middleborough
North Adams	East Brookfield	Spencer	Dighton	Reading	Nantucket
Peru	Longmeadow	Springfield	Douglas	Rahoboth	New Bedford
Pittsfield	Easthampton	Staring	Dover	Rivers	Oak Bluffs
Plainfield	Erving	Stow	Dudley	Rockland	Orleans
Richmond	Fitchburg	Sturbridge	East	Rockport	Pembroke
Rove	Gardner	Sunderland	Easton	Roxley	Plymouth
Savoy	Gill	Templeton	Essex	Salem	Provincetown

<90 MPH	90 MPH	100 MPH	110 MPH		
Sheffield	Goshen	Tolland	Everett	Salisbury	Rochester
Shelburne	Granby	Townsend	Foxborough	Saugus	Sandwich
Stockbridge	Granville	Tyngsborough	Framingham	Seekonk	Schuette
Tyringham	Groton	Wales	Franklin	Sharon	Somerset
Washington	Hadley	Ware	Georgetown	Sherborn	Swansea
West Stockbridge	Hampden	Ware	Gloucester	Somerville	Tisbury
Williamstown	Hardwick	Ware	Grafton	Southborough	Truro
Windsor	Harfield	Wendell	Groveland	Stoneham	Wareham
Worthington	Harvard	West Boylston	Hamilton	Stoughton	Wareham
	Holden	West Brookfield	Hanover	Sudbury	West Tisbury
	Holland	West Springfield	Hanson	Sutton	Westport
	Holyoke	Westfield	Haverhill	Swampscott	Yamouth
Hubbardston	Westford	Hingham	Taunton		
Hudson	Westhampton	Holbrook	Tencksbury		
Huntington	Westminster	Holliston	Topshfield		
Lancaster	Whately	Upton			
Lawrence	Wilbraham	Hopkinton	Urbidge		
Leicester	Williamburg	Hull	Wakfield		
Leominster	Winchendon	Ipswich	Walpole		
Lexington	Worcester	Lexington	Waltham		
Littleton		Lincoln	Watertown		
Longmeadow		Lynn	Wayland		
Lovell		Lynnfield	Webster		
Ludlow		Malden	Wellesley		
Lunenburg		Manchester	Wenham		
Maynard		Mansfield	West Bridgewater		
Methuen		Marblehead	West Newbury		
Milbury		Marlborough	Westborough		
Monson		Medfield	Weston		
Montage		Medford	Westwood		
Montgomery		Medway	Weymouth		
			Whitman		
			Wilmington		
			Winchester		
			Winthrop		
			Woburn		
			Wrentham		

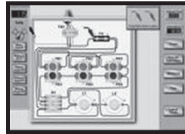
Is replacement cost enough? Personal Lines

And ...the older the home ...you run into general

framing issues



electrical issues



plumbing issues



roofing issues



For any loss size loss

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Is replacement cost enough? Personal Lines

Now ..what if it is a **BRAND** new home ...and a **TOTAL** loss ...where ordinance or law is **NOT** an issue....

there are **NO** code changes



there is no “undamaged value” that must be torn down



Is insuring to replacement cost ...sufficient???

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Well ...what about Debris removal

How does the loss settlement clause apply?

It only talks about DAMAGED property and repairing DAMAGED property ... not cleaning up to do repairs

- a. If, at the time of loss, the amount of insurance in this policy on the damaged building is 80% or more of the full replacement cost of the building immediately before the loss, we will pay the cost to repair or replace, after application of any deductible and without deduction for depreciation, but not more than the least of the following amounts:
- (1) The limit of liability under this policy that applies to the building;
 - (2) The replacement cost of that part of the building damaged with material of like kind and quality and for like use; or

And .. watch out ... the limit of insurance on policy is MOST will pay

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What about the definition of building

SECTION I – PROPERTY COVERAGES

A. Coverage A – Dwelling

1. We cover:

- a. The dwelling on the "residence premises" shown in the Declarations, including structures attached to the dwelling; and
- b. Materials and supplies located on or next to the "residence premises" used to construct, alter or repair the dwelling or other structures on the "residence premises".

2. We do not cover land, including land on which the dwelling is located.

Well ...not really specify ...and that is NEVER good when ambiguity exists ...

45

Is replacement cost enough? Personal Lines

Can a total loss ...still leave a “lot” ...left



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Is replacement cost enough? Personal Lines

Debris removal is discussed in the additional or other coverages section –

often this is done to LIMIT coverage ...



and “clarify” what we want to do without lawyers involved.

This is where the DP and the HO are VASTLY different!!!

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Is replacement cost enough? Personal Lines

If you need the limit of insurance to rebuild ... what about the costs to clean up ...before rebuilding ...

which can depend upon



- 1) how much left
- 2) landfill/dump costs
- 3) proximity of other structures for ease of clean up
- 4) Materials ... requiring specialized removal and disposal

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Is replacement cost enough? Personal Lines

Sometimes issues are discussed in the additional coverages section – often this is done to LIMIT coverage ... and “clarify” what we want to do without lawyers involved.

The ISO HO policy provides 5% - no more
Wow ...consider older home with asbestos

E. Additional Coverages

1. Debris Removal

- a. We will pay your reasonable expense for the removal of:
 - (1) Debris of covered property if a Peril Insured Against that applies to the damaged property causes the loss; or
 - (2) Ash, dust or particles from a volcanic eruption that has caused direct loss to a building or property contained in a building.

This expense is included in the limit of liability that applies to the damaged property. If the amount to be paid for the actual damage to the property plus the debris removal expense is more than the limit of liability for the damaged property, an additional 5% of that limit is available for such expense.

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Is replacement cost enough? Personal Lines

We want the HO building limit to pay for BOTH
1) damage to covered property
and
2) debris removal of covered property

Coverage A	\$200,000
If \$10,000	
fire loss	<u>-10,000</u>
Leaves	\$190,000
Of limit	
For debris	
removal	

Coverage A	\$200,000
If total	
fire loss	<u>-200,000</u>
Leaves	0
No limit left	
For debris	
Removal	

Then the 5% of building limit comes into play ...or a possible \$10,000 in this case

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Is replacement cost enough? Personal Lines

And ...if you have the DP policy ...you are REALLY up the creek....

There IS no additional coverage ... if the limit is not enough to remove debris and pay loss ... too bad!

2. Debris Removal

We will pay your reasonable expense for the removal of:

- a. Debris of covered property if a Peril Insured Against causes the loss; or
- b. Ash, dust or particles from a volcanic eruption that has caused direct loss to a building or property contained in a building.

This expense is included in the limit of liability that applies to the damaged property

Wow ...now REALLY consider older home with asbestos

51

Is replacement cost enough? Personal Lines

Under the DP we want the building limit to pay for BOTH

- 1) damage to covered property**
- and**
- 2) debris removal of covered property**

Coverage A	\$200,000
If \$10,000 fire loss	<u>-10,000</u>
Leaves Of limit For debris removal	\$190,000

Coverage A	\$200,000
If total fire loss	<u>-200,000</u>
Leaves	0
No limit left For debris Removal	

Unlike the HO policy there is NO additional amount for debris removal

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Is replacement cost enough? Personal Lines

Whether the HO or the DP ...

but CERTAINLY the DP ... since there is NO additional limit



There is NO HO or DP endorsement to buy more debris removal ...you can only buy more ...buy buying MORE building limit!!!

53

Is replacement cost enough? Commercial lines

CP 00 10 is an ACV form unless R/C is opted ... which it should be ... then when R/C is opted

- e. We will not pay more for loss or damage on a replacement cost basis than the least of (1), (2) or (3), subject to f. below:
- (1) The Limit of Insurance applicable to the lost or damaged property;
 - (2) The cost to replace the lost or damaged property with other property:
 - (a) Of comparable material and quality; and
 - (b) Used for the same purpose; or
 - (3) The amount actually spent that is necessary to repair or replace the lost or damaged property.

As in personal lines ...R/C pays DAMAGED property for LKQ – like material and quality

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Is replacement cost enough? Commercial lines

CP 00 10 - the R/C option then states

- f. The cost of repair or replacement does not include the increased cost attributable to enforcement of any ordinance or law regulating the construction, use or repair of any property.

R/C does NOT include ordinance or law costs



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Is replacement cost enough? Commercial lines

The cause of loss forms
exclude:
(this from CP 10 30
Special
form cause of loss)

Ordinance or law –
similar
to personal lines

5. Exclusions

1. We will not pay for loss or damage caused directly or indirectly by any of the following. Such loss or damage is excluded regardless of any other cause or event that contributes concurrently or in any sequence to the loss.

a. Ordinance Or Law

The enforcement of any ordinance or law:

- (1) Regulating the construction, use or repair of any property; or
- (2) Requiring the tearing down of any property, including the cost of removing its debris.

This exclusion, Ordinance Or Law, applies whether the loss results from:

- (a) An ordinance or law that is enforced even if the property has not been damaged; or
- (b) The increased costs incurred to comply with an ordinance or law in the course of construction, repair, renovation, remodeling or demolition of property, or removal of its debris, following a physical loss to that property.

Is replacement cost enough? Commercial lines

Like personal lines ...

there is some coverage under the
Additional coverage section ...

but unlike personal lines ...

the coverage is NOT as broad



Is replacement cost enough? Commercial lines

e. Increased Cost Of Construction

- (1) This Additional Coverage applies only to buildings to which the Replacement Cost Optional Coverage applies.
- (2) In the event of damage by a Covered Cause of Loss to a building that is Covered Property, we will pay the increased costs incurred to comply with enforcement of an ordinance or law in the course of repair, rebuilding or replacement of damaged parts of that property, subject to the limitations stated in e.(3) through e.(9) of this Additional Coverage.
- (3) The ordinance or law referred to in e.(2) of this Additional Coverage is an ordinance or law that regulates the construction or repair of buildings or establishes zoning or land use requirements at the described premises, and is in force at the time of loss.

Only covers
“increased costs”
for
repair/rebuilding
of **DAMAGED**
covered property

Is replacement cost enough? Commercial lines

The most that is paid is
the **LESSER** of
\$10,000
or
5% building limit

Which is **FAR** less than
the **HO and DP forms in**
Limit and extent of
coverage

- (9) The most we will pay under this Additional Coverage, for each described building insured under this Coverage Form, is \$10,000 or 5% of the Limit of Insurance applicable to that building, whichever is less. If a damaged building is covered under a blanket Limit of Insurance which applies to more than one building or item of property, then the most we will pay under this Additional Coverage, for that damaged building, is the lesser of: \$10,000 or 5% times the value of the damaged building as of the time of loss times the applicable Coinsurance percentage.
The amount payable under this Additional Coverage is additional insurance.

Is replacement cost enough? Commercial lines

CP 00 10 does NOT cover

1) increased costs due to ordinance for repair applicable to undamaged property

2) does not cover the value of property undamaged property that must be demolished



3) does not cover the costs to demolish or debris of undamaged property

60

Is replacement cost enough? Commercial lines

The 2002/2006/2010 ISO BOP is similar in WHAT it does –

only responds to –

increased costs of DAMAGED property

(2) In the event of damage by a Covered Cause of Loss to a building that is Covered Property, we will pay the increased costs incurred to comply with enforcement of an ordinance or law in the course of repair, rebuilding or replacement of damaged parts of that property, subject to the limitations stated in Paragraphs (3) through (9) of this Additional Coverage.

61

Is replacement cost enough? Commercial lines

The 2002/2006/2010 ISO BOP has a similar limit to the CP ... the \$10,000 ...period ...

it doesn't say ...

the "lesser of \$10,000 or 5% of the building limit"

(6) The most we will pay under this Additional Coverage, for each described building insured under Section I – Property, is \$10,000. If a damaged building(s) is covered under a blanket Limit of Insurance which applies to more than one building or item of property, then the most we will pay under this Additional Coverage, for each damaged building, is \$10,000.

The amount payable under this Additional Coverage is additional insurance.

62

Is replacement cost enough? Commercial lines

Like the CP 00 10 - the ISO 2002/2006/2010 BOP does not cover



1) increased costs due to ordinance for repair applicable to undamaged property

2) does not cover the value of property undamaged property that must be demolished

3) does not cover the costs to demolish or debris of undamaged property

63

Is replacement cost enough? Commercial lines

A business client might face the possibility of having to

add sprinkler systems;



add enhanced lighting;

rebuild brick or wood joist construction with fire resistant construction;



redesign the structure to meet earthquake or hurricane resistant standards.



64

Is replacement cost enough? Commercial lines

If remodeling to code is required....

the insured must also absorb the architects' and engineers' fees necessary to determine what will be required to meet current codes.



65

Is replacement cost enough? Commercial lines

Depending on how old the building is ... in the 90's the ADA law came into play ...there was a certain amount of immediate accommodation required ...but much was also grandfathered until ... substantial damage or alteration removes "grandfather" status. The Federal ADA law may require enhanced public access such as:

wheelchair ramps,



installation of elevators



modified restrooms to accommodate the handicapped.



66

Is replacement cost enough? Commercial lines

In addition to the extra expense required that is excluded....



consider the increased time to rebuild

that is ALSO not covered under an unendorsed the CP Business Income Coverage Form or BOP policy per ordinance or law exclusion

67

Is replacement cost enough? Commercial lines

There is a CP time element Ordinance or law endorsement CP 15 31 to add to CP Business Income Coverage

and



the 2006 BOP Ordinance or law endorsement has a time element option

To cover additional time required to repair to code

POLICY NUMBER: COMMERCIAL PROPERTY CP 04 05 04 02

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

ORDINANCE OR LAW COVERAGE

This endorsement modifies insurance provided under the following:

BUILDING AND PERSONAL PROPERTY COVERAGE FORM
CONDOMINIUM ASSOCIATION COVERAGE FORM
STANDARD PROPERTY POLICY

SCHEDULE*

Bldg. No./ Prem. No.	Cov. A	Cov. B Limit Of Insur.	Cov. C Limit Of Insur.	Cov. B And C Combined Limit Of Insur.
/	<input type="checkbox"/>	\$	\$	\$ **
/	<input type="checkbox"/>	\$	\$	\$ **
/	<input type="checkbox"/>	\$	\$	\$ **

*Information required to complete the Schedule, if not shown on this endorsement, will be shown in the Declarations.

**Do not enter a Combined Limit of Insurance if individual Limits of Insurance are selected for Coverages B and C, or if one of these Coverages is not applicable.

A. Each Coverage – Coverage A, Coverage B and Coverage C – is provided under this endorsement only if that Coverage(s) is chosen by entry in the above Schedule and then only with respect to the building identified for that Coverage(s) in the Schedule.

B. Application Of Coverage(s)

The Coverage(s) provided by this endorsement apply only if both B.1. and B.2. are satisfied and are then subject to the qualifications set forth in B.3.

1. The ordinance or law:

- a. Regulates the demolition, construction or repair of buildings, or establishes zoning or land use requirements at the described premises; and
- b. Is in force at the time of loss.

But coverage under this endorsement applies only in response to the minimum requirements of the ordinance or law. Losses and costs incurred in complying with recommended actions or standards that exceed actual requirements are not covered under this endorsement.

2.a. The building sustains direct physical damage that is covered under this policy and such damage results in enforcement of the ordinance or law; or

b. The building sustains both direct physical damage that is covered under this policy and direct physical damage that is not covered under this policy, and the building damage in its entirety results in enforcement of the ordinance or law.

c. But if the building sustains direct physical damage that is not covered under this policy, and such damage is the subject of the ordinance or law, then there is no coverage under this endorsement even if the building has also sustained covered direct physical damage.

3. In the situation described in B.2.b. above, we will not pay the full amount of loss otherwise payable under the terms of Coverages A, B, and/or C of this endorsement. Instead, we will pay a proportion of such loss; meaning the proportion that the covered direct physical damage bears to the total direct physical damage.

CP 04 05
Ordinance
or Law
Coverage

Is replacement cost enough? Commercial lines

Unlike personal lines we don't buy % of the building limit ...we have to buy the coverage separately ...for

1) upgrade damaged property



2) demolish undamaged property and get value of such

3) upgrade undamaged property

Is replacement cost enough? Commercial lines

Bldg. No./ Prem. No.	Cov. A	Cov. B Limit Of Insur.	Cov. C Limit Of Insur.	Cov. B And C Combined Limit Of Insur.
/	<input type="checkbox"/>	\$	\$	\$ **
/	<input type="checkbox"/>	\$	\$	\$ **
/	<input type="checkbox"/>	\$	\$	\$ **

*Information required to complete the Schedule, if not shown on this endorsement, will be shown in the Declarations.

**Do not enter a Combined Limit of Insurance if individual Limits of Insurance are selected for Coverages B and C, or if one of these Coverages is not applicable.

We need to FIRST check the "A" box

This gives us the ability to USE the building limit for damaged or undamaged loss

Is replacement cost enough? Commercial lines

D. Coverage

1. Coverage A – Coverage For Loss To The Undamaged Portion Of The Building

With respect to the building that has sustained covered direct physical damage, we will pay under Coverage A for the loss in value of the undamaged portion of the building as a consequence of enforcement of an ordinance or law that requires demolition of undamaged parts of the same building

Coverage A is included within the Limit of Insurance shown in the Declarations as applicable to the covered building. Coverage A does not increase the Limit of Insurance.

Is replacement cost enough? Commercial lines

Bldg. No./ Prem. No.	Cov. A	Cov. B Limit Of Insur.	Cov. C Limit Of Insur.	Cov. B And C Combined Limit Of Insur.
/	<input type="checkbox"/>	\$	\$	\$ **
/	<input type="checkbox"/>	\$	\$	\$ **
/	<input type="checkbox"/>	\$	\$	\$ **

*Information required to complete the Schedule, if not shown on this endorsement, will be shown in the Declarations.
 **Do not enter a Combined Limit of Insurance if individual Limits of Insurance are selected for Coverages B and C, or if one of these Coverages is not applicable.

**Coverage B...
Is for Demolition of this undamaged value**

Is replacement cost enough? Commercial lines

2. Coverage B – Demolition Cost Coverage

With respect to the building that has sustained covered direct physical damage, we will pay the cost to demolish and clear the site of undamaged parts of the same building, as a consequence of enforcement of an ordinance or law that requires demolition of such undamaged property.

The Coinsurance Additional Condition does not apply to Demolition Cost Coverage.

Is replacement cost enough? Commercial lines

Bldg. No./ Prem. No.	Cov. A	Cov. B Limit Of Insur.	Cov. C Limit Of Insur.	Cov. B And C Combined Limit Of Insur.
/	<input type="checkbox"/>	\$	\$	\$ **
/	<input type="checkbox"/>	\$	\$	\$ **
/	<input type="checkbox"/>	\$	\$	\$ **

*Information required to complete the Schedule, if not shown on this endorsement, will be shown in the Declarations.

**Do not enter a Combined Limit of Insurance if individual Limits of Insurance are selected for Coverages B and C, or if one of these Coverages is not applicable.

Coverage C...
Is upgrading both damaged and undamaged property

Is replacement cost enough? Commercial lines

3. Coverage C – Increased Cost Of Construction Coverage

a. With respect to the building that has sustained covered direct physical damage, we will pay the increased cost to:

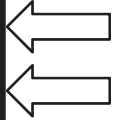
- (1) Repair or reconstruct damaged portions of that building; and/or
- (2) Reconstruct or remodel undamaged portions of that building, whether or not demolition is required;

when the increased cost is a consequence of enforcement of the minimum requirements of the ordinance or law.

However:

- (1) This coverage applies only if the restored or remodeled property is intended for similar occupancy as the current property, unless such occupancy is not permitted by zoning or land use ordinance or law.
- (2) We will not pay for the increased cost of construction if the building is not repaired, reconstructed or remodeled.

The Coinsurance Additional Condition does not apply to Increased Cost of Construction Coverage.

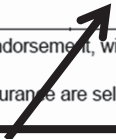


Is replacement cost enough? Commercial lines

Bldg. No./ Prem. No.	Cov. A	Cov. B Limit Of Insur.	Cov. C Limit Of Insur.	Cov. B And C Combined Limit Of Insur.
/	<input type="checkbox"/>	\$	\$	**
/	<input type="checkbox"/>	\$	\$	**
/	<input type="checkbox"/>	\$	\$	**

*Information required to complete the Schedule, if not shown on this endorsement, will be shown in the Declarations.

**Do not enter a Combined Limit of Insurance if individual Limits of Insurance are selected for Coverages B and C, or if one of these Coverages is not applicable.



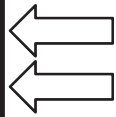
But ... instead of having TWO limits where you could be wrong ...it is probably best to use the blanket approach for option B/C together

Is replacement cost enough? Commercial lines

5. If a **Combined Limit of Insurance** is shown for Coverages **B** and **C** in the Schedule above, Paragraphs **E.3.** and **E.4.** of this endorsement do not apply with respect to the building that is subject to the Combined Limit, and the following loss payment provisions apply instead:

The most we will pay, for the total of all covered losses for Demolition Cost and Increased Cost of Construction, is the Combined Limit of Insurance shown for Coverages **B** and **C** in the Schedule above. Subject to this Combined Limit of Insurance, the following loss payment provisions apply:

- a. For Demolition Cost, we will not pay more than the amount you actually spend to demolish and clear the site of the described premises.
- b. With respect to the Increased Cost of Construction:
 - (1) We will not pay for the increased cost of construction:
 - (a) Until the property is actually repaired or replaced, at the same or another premises; and
 - (b) Unless the repairs or replacement are made as soon as reasonably possible after the loss or damage, not to exceed two years. We may extend this period in writing during the two years.



POLICY NUMBER: BUSINESSOWNERS BP 04 46 01 06

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

ORDINANCE OR LAW COVERAGE

This endorsement modifies insurance provided under the following:

BUSINESSOWNERS COVERAGE FORM

SCHEDULE

Prem. No.	Bldg. No.	Coverage 1 (Check If Applies)	Coverage 2 Limit Of Insurance	Coverage 3 Limit Of Insurance	Coverages 2 And 3 Combined Limit Of Insurance*
			\$	\$	\$
			\$	\$	\$
			\$	\$	\$

Business Income And Extra Expense Optional Coverage Enter Yes Or No:
 Number Of Hours Waiting Period For Period Of Restoration Applicable To Business Income And Extra Expense Optional Coverage:
 Information required to complete this Schedule, if not shown above, will be shown in the Declarations.
 *Do not enter a Combined Limit of Insurance if individual Limits of Insurance are selected for Coverages 2 and 3, or if one of these Coverages is not applicable.

Section I – Property is amended as follows:

- A. Each Coverage – Coverage 1, Coverage 2 and Coverage 3 – is provided under this endorsement only if that Coverage(s) is chosen by entry in the above Schedule and then only with respect to the building identified for the Coverage(s) in the Schedule.
- B. **Application Of Coverage(s)**
 The Coverage(s) provided by this endorsement apply only if both B.1. and B.2. are satisfied and are then subject to the qualifications set forth in B.3.
 - 1. The ordinance or law:
 - a. Regulates the demolition, construction or repair of buildings, or establishes zoning or land use requirements at the described premises; and
 - b. Is in force at the time of loss.

But coverage under this endorsement applies only in response to the minimum requirements of the ordinance or law. Losses and costs incurred in complying with recommended actions or standards that exceed actual requirements are not covered under this endorsement.

- 2. The building sustains direct physical damage:
 - a. That is covered under this policy and such damage results in enforcement of the ordinance or law; or
 - b. That is covered under this policy and direct physical damage that is not covered under this policy, and the building damage in its entirety results in enforcement of the ordinance or law.
 - c. But if the damage is not covered under this policy, and such damage is the subject of the ordinance or law, then there is no coverage under this endorsement even if the building has also sustained covered direct physical damage.

The 2006 BOP endorsement is similar

Check Cov 1 for undamaged value

Coverage 2 is Demolition of such

Coverage 3 is increased cost of construction damaged or undamaged value

Can combine Cov 2 and 3 as in CP endorsement

Is replacement cost enough? Commercial lines

Prem. No.	Bldg. No.	Coverage 1 (Check If Applies)	Coverage 2 Limit Of Insurance	Coverage 3 Limit Of Insurance	Coverages 2 And 3 Combined Limit Of Insurance*
			\$	\$	\$
			\$	\$	\$
			\$	\$	\$

Business Income And Extra Expense Optional Coverage Enter **Yes Or No:**

Number Of Hours Waiting Period For Period Of Restoration Applicable To Business Income And Extra Expense Optional Coverage:

Information required to complete this schedule, if not shown above, will be shown in the Declarations.

*Do not enter a Combined Limit of Insurance if individual Limits of Insurance are selected for Coverages 2 and 3, or if one of these Coverages is not applicable.

One requests the business income coverage to apply by saying ...yes or no



And ...the time period deductible can be removed

80

Is replacement cost enough? Commercial lines

So ...

commercial lines and personal lines “replacement cost” coverage is not sufficient when building codes or zoning ordinances require a difference in construction

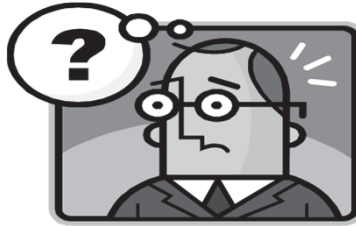



Endorsements are necessary to meet this need or additional costs NOT contemplated in the replacement cost loss settlement provisions

81

Is replacement cost enough? Commercial lines

What about debris removal and the commercial policy???



Again, very different from the personal lines policies

82

Is replacement cost enough? Commercial lines

CP 00 10 states: BOP same language

4. Additional Coverages

a. Debris Removal

- (1) Subject to Paragraphs (3) and (4), we will pay your expense to remove debris of Covered Property caused by or resulting from a Covered Cause of Loss that occurs during the policy period. The expenses will be paid only if they are reported to us in writing within 180 days of the date of direct physical loss or damage.
- (2) Debris Removal does not apply to costs to:
 - (a) Extract "pollutants" from land or water; or
 - (b) Remove, restore or replace polluted land or water.

Like personal lines we need a covered cause of loss (peril) damaging covered property



83

Is replacement cost enough? Commercial lines

CP 00 10 states: BOP same language

(3) Subject to the exceptions in Paragraph (4), the following provisions apply:

(a) The most we will pay for the total of direct physical loss or damage plus debris removal expense is the Limit of Insurance applicable to the Covered Property that has sustained loss or damage.

(b) Subject to (a) above, the amount we will pay for debris removal expense is limited to 25% of the sum of the deductible plus the amount that we pay for direct physical loss or damage to the Covered Property that has sustained loss or damage.

(4) We will pay up to an additional \$10,000 for debris removal expense, for each location, in any one occurrence of physical loss or damage to Covered Property, if one or both of the following circumstances apply:

Like personal lines we want the loss AND the debris removal paid within the limit of insurance ...

however, it is subject to a "formula"

And if formula or limit not sufficient have add'l \$10,000

Is replacement cost enough? Commercial Lines

BOP and CP have a "funky formula" limitation

(b) Subject to (a) above, the amount we will pay for debris removal expense is limited to 25% of the sum of the deductible plus the amount that we pay for direct physical loss or damage to the Covered Property that has sustained loss or damage.

Pays 25% of LOSS payment + deductible – assuming there is limit left

If building limit	\$1,000,000
Loss payment	100,000
Policy deductible	1,000

$(\$100,000 + \$1,000) \times 25\% = 25,250$

Is replacement cost enough? Commercial Lines

BOP and CP have a “funky formula” limitation

Pays 25% of LOSS payment + deductible –
assuming there is limit left

If building limit	\$1,000,000
Loss payment	100,000
Policy deductible	1,000

4) We will pay up to an additional \$10,000 for debris removal expense, for each location, in any one occurrence of physical loss or damage to Covered Property, if one or both of the following circumstances apply:

$$(\$100,000 + \$1,000) \times 25\% = \$25,250$$

If this \$25,250 is not sufficient ...can add an additional \$10,000 for a total of \$35,250.

The HO policy could have paid a total of \$1,050,000
The DP policy could have paid a total of \$1,000,000

86

Is replacement cost enough? Commercial Lines

CP and BOP debris removal payment using previous personal lines examples:

Building cov	\$200,000
If \$10,000 fire loss	-10,000
With \$1,000 ded	

$(\$10,000 + \$1,000) \times .25 =$
 $\$2750$ for debris removal +
 $\$10,000$ if necessary for
total of $\$12,750$

Building limit	\$200,000
If total fire loss	<u>-200,000</u>
Leaves	0

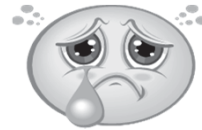
No limit left
For debris
Removal

So ..only receive the
additional \$10,000 for
debris removal

87

Is replacement cost enough? Commercial lines

Under the BOP policy there is NO endorsement to buy more debris removal ...



And it's NOT like the HO or DP policy where buying more building coverage directly provides more debris removal.

88

Is replacement cost enough? Commercial lines

Debris removal under the BOP ...
1) you'd need MORE Building coverage
AND
2) a bigger claim ...

which ...

could use up TOO much building coverage unless you were WICKED over-insured!!!!



89

Is replacement cost enough? Commercial lines

Under CP coverage ...



there IS an endorsement to buy

But ...

HOW MUCH DO YOU NEED



You have to figure that out ...BEFORE the loss!

90

POLICY NUMBER: COMMERCIAL PROPERTY
CP 04 15 10 0

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

DEBRIS REMOVAL ADDITIONAL INSURANCE

This endorsement modifies insurance provided under the following:

BUILDERS' RISK COVERAGE FORM
BUILDING AND PERSONAL PROPERTY COVERAGE FORM
CONDOMINIUM ASSOCIATION COVERAGE FORM
CONDOMINIUM COMMERCIAL UNIT-OWNERS COVERAGE FORM
STANDARD PROPERTY POLICY
TOBACCO SALES WAREHOUSES COVERAGE FORM

SCHEDULE*

Prem. No.	Bldg. No.	Debris Removal Amount	Additional Premium

*Information required to complete this Schedule, if not shown on this endorsement, will be shown in the Declarations.

The additional amount of \$10,000 for debris removal in the Debris Removal Additional Coverages section is replaced by the higher amount shown in the Schedule.

How much do you need?

What is your building made out of ...
How close to other buildings, etc.

Some is better than NONE!

91

While researching this webinar ...I found the following examples

Total fire loss to a bowling alley produced a \$200,000 debris removal loss because of the asbestos in the building



A condo association building suffered \$250,000 damage to an asbestos roof and spent approximately \$1 million to dispose of the damaged asbestos ...

While researching this webinar ...I found the following examples

Fire loss to a ski lodge – replacement cost more than limit also suffered substantial debris removal loss (also not covered sufficiently)



Valuation – what do we use

So ...going back to the beginning ...

Is the coverage limit ...

Including values

That the policy language



WON'T PAY???????

94

Valuation – what do we use

So ...you might ask your company just what valuation method it uses ...



And ... regarding reconstruction values ...which building codes are “assumed” in the valuation

Are included in the limit ...

Yet seemingly excluded or restricted in the policy.

95

Should the adjusters be made aware of what the valuation process includes?



Should the ordinance or law language be restricted to just “building specific” codes such as

**new zoning issues
Setback requirements**

Just food for thought!



Thank you for attending...



If you have any questions, please email
imorrill@massagent.com