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

R/C and ACV ...

are based on

“as was” ....

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

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*Replacement costs, often calculated using outdated square-foot or unit-count methods, are based on prices for labor, materials, overhead, profit and fees that are in effect prior to the loss.*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

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.”*
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

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
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.

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
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 …

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

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.”)
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.

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

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

If the valuation method assumes local building code requirements regarding earthquake and wind requirements ... should the ordinance or law exclusion apply to GENERIC ordinances???
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?

Let’s look at the policy ...and see

If we have a PROBLEM

Between

VALUATION ..... 

Policy limit.....

And policy language
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

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.
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”

We ONLY respond to 

That part of the building ….DAMAGED  

for LKQ ….  

like kind and quality and use 

But …in case you DON’T understand this …we also state…. 
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:

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.

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

3) remove undamaged portions that had to be demolished

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

SECTION I – Add’l Coverages or DP Other Coverages

Fire damaged portion that must be Upgraded – need ord/law for upgrades

Undamaged portion that must be torn down – need ord/law to cover this “lost” value

Demolition of undamaged portion requires ord/law

Upgrades in undamaged portion requires ord/law
Is replacement cost enough? Personal Lines

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 ....

Is replacement cost enough? Personal Lines

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

<table>
<thead>
<tr>
<th>POLICY NUMBER:</th>
<th>HOMEOWNERS</th>
<th>HO 04 77 10 00</th>
</tr>
</thead>
<tbody>
<tr>
<td>THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ORDINANCE OR LAW</td>
<td></td>
<td></td>
</tr>
<tr>
<td>INCREASED AMOUNT OF COVERAGE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SCHEDULE*</td>
<td></td>
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</table>

<table>
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<tr>
<th>New Total Percentage Amount:</th>
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*Entry may be left blank if shown elsewhere in this policy for this coverage.

<table>
<thead>
<tr>
<th>SECTION I – PROPERTY COVERAGE</th>
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<tbody>
<tr>
<td>ADDITIONAL COVERAGES</td>
</tr>
<tr>
<td>11. Ordinance Or Law</td>
</tr>
<tr>
<td>The total limit of liability that applies:</td>
</tr>
<tr>
<td>a. To Coverage A, or</td>
</tr>
<tr>
<td>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.</td>
</tr>
</tbody>
</table>

DP 04 71 for Dwelling Fire similar

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

<table>
<thead>
<tr>
<th>Percentage Of Coverage A</th>
<th>Increase In Amount</th>
<th>Total Amount</th>
<th>Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>15%</td>
<td>25%</td>
<td>1.03</td>
<td></td>
</tr>
<tr>
<td>40%</td>
<td>50%</td>
<td>1.07</td>
<td></td>
</tr>
<tr>
<td>65%</td>
<td>75%</td>
<td>1.11</td>
<td></td>
</tr>
<tr>
<td>90%</td>
<td>100%</td>
<td>1.15</td>
<td></td>
</tr>
</tbody>
</table>

For each add’l 25% increment, add: 0.04

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

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.

<table>
<thead>
<tr>
<th>Percentage Of Coverage A</th>
<th>Increase In Amount</th>
<th>Total Amount</th>
<th>Factors</th>
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</thead>
<tbody>
<tr>
<td>15%</td>
<td>25%</td>
<td>1.05</td>
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<tr>
<td>40%</td>
<td>50%</td>
<td>1.12</td>
<td></td>
</tr>
<tr>
<td>65%</td>
<td>75%</td>
<td>1.20</td>
<td></td>
</tr>
<tr>
<td>90%</td>
<td>100%</td>
<td>1.27</td>
<td></td>
</tr>
</tbody>
</table>

For each add’l 25% increment, add: 0.08

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

Current 7th Edition

ASCE 7-02
110 mph Wind Contour

110 mph (red shaded)

ASCE 7-02
120 mph Wind Contour

120 mph (Cape Cod and the Islands)
In Chapter 13 delete TABLE 13.15A and replace with this table.

### TABLE E001.24A MASSACHUSETTS BASIC WIND SPEEDS

<table>
<thead>
<tr>
<th>MPH</th>
<th>99 MPH</th>
<th>100 MPH</th>
<th>110 MPH</th>
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</thead>
<tbody>
<tr>
<td>90</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>100</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>110</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

(Complete table data not provided in this representation.)
And ...the older the home ...you run into general

framing issues

electrical issues

plumbing issues

roofing issues

For any loss size loss

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???
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.

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

What about the definition of building ....

SECTION I – PROPERTY COVERAGE

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

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!!!
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

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.
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

<table>
<thead>
<tr>
<th>Coverage A</th>
<th>$200,000</th>
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</thead>
<tbody>
<tr>
<td>If $10,000</td>
<td></td>
</tr>
<tr>
<td>fire loss</td>
<td>$-10,000</td>
</tr>
<tr>
<td>Leaves</td>
<td>$190,000</td>
</tr>
<tr>
<td>Of limit</td>
<td></td>
</tr>
<tr>
<td>For debris removal</td>
<td></td>
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</tr>
</thead>
<tbody>
<tr>
<td>If total fire loss</td>
<td>$-200,000</td>
</tr>
<tr>
<td>Leaves</td>
<td>0</td>
</tr>
<tr>
<td>No limit left</td>
<td></td>
</tr>
<tr>
<td>For debris Removal</td>
<td></td>
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</tbody>
</table>

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

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 ....
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

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

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!!!
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

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

Is replacement cost enough? Commercial lines

CP 00 10 - the R/C option then states

R/C does NOT include ordinance or law costs
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

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

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58

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59
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

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.
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”

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
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.

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.
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.

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
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
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

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.

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Coverage B...

Is for Demolition of this undamaged value
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.

Coverage C…

Is upgrading both damaged and undamaged property
Is replacement cost enough? Commercial lines

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*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

6. 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.

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POLLICY NUMBER: BUSINESSOWNERS BP 34 48 01 00

THESE ENDORSEMENTS CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

ORDINANCE OR LAW COVERAGE

This endorsement modifies insurance provided under the following:

BUSINESSOWNERS COVERAGE FORM

<table>
<thead>
<tr>
<th>Schedule</th>
<th>Coverage 1</th>
<th>Coverage 2</th>
<th>Coverage 3</th>
<th>Coverage 2 And 3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Limit Of Insurance</td>
<td>Limit Of Insurance</td>
<td>Limit Of Insurance</td>
<td>Limit Of Insurance</td>
</tr>
<tr>
<td>E.2</td>
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<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>E.3</td>
<td>$</td>
<td>$</td>
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<tr>
<td>E.4</td>
<td>$</td>
<td>$</td>
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<td>$</td>
</tr>
</tbody>
</table>

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.

“Check Cov 1 for undamaged value

Coverage 2 is Demolition of such

Coverage 3 is increased cost of construction of damaged or undamaged value

Can combine Cov 2 and 3 as in CP endorsement

---

The 2006 BOP endorsement is similar

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Can combine Cov 2 and 3 as in CP endorsement
Is replacement cost enough? Commercial lines

<table>
<thead>
<tr>
<th>Prem. No.</th>
<th>Bldg. No.</th>
<th>Coverage 1 (Check If Applies)</th>
<th>Coverage 2 Limit Of Insurance</th>
<th>Coverage 3 Limit Of Insurance</th>
<th>Coverages 2 And 3 Combined Limit Of Insurance*</th>
</tr>
</thead>
<tbody>
<tr>
<td>$</td>
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</tr>
</tbody>
</table>

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

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
Is replacement cost enough? Commercial lines

What about debris removal and the commercial policy???

Again, very different from the personal lines policies

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
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

<table>
<thead>
<tr>
<th>If building limit</th>
<th>$1,000,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss payment</td>
<td>100,000</td>
</tr>
<tr>
<td>Policy deductible</td>
<td>1,000</td>
</tr>
</tbody>
</table>

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

($100,000 + $1,000) x 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

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) x .25 =
$2750 for debris removal + $10,000 if necessary for total of $12,750

Building limit $200,000
If total fire loss -200,000
Leaves 0
No limit left
For debris Removal
So ..only receive the additional $10,000 for debris removal
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.

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!!!!
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!

How much do you need?

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

Some is better than NONE!
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)
So … going back to the beginning …
Is the coverage limit …
Including values …. 
That the policy language

WON’T PAY????????

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.
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