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HOMEOWNERS INSURANCE VALUATION

COURSE INSTRUCTIONS

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AffordableEducators.com
(800) 498-5100
orders@ceclass.com

PO Box 2048
Temecula, CA 92593

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Homeowners Insurance Valuation



SECTION 1: INTRODUCTION

A home often represents the largest investment its owner will ever make. Its contents include the most important possessions of its residents. Within these two reasons alone is enough motivation for most people to purchase insurance to protect their home and property. Add to these motivating factors that most mortgage arrangements require some form of homeowners coverage and the result is that homeowners insurance is one of the most common forms of insurance purchased.

In assisting applicants and insureds in this decision, agents are charged with advising on the type and limits of this insurance coverage. One of the most controversial elements in this coverage in recent years has been replacement cost endorsements. The term itself may have led to many consumers believing they were fully covered when, in fact, the values of their home have been underinsured.

This was demonstrated during one of California's worst fire seasons . . . between 2007 and 2008 . . . where nearly one million people were forced to evacuate their homes. Approximately 1,500 homes were destroyed statewide. Many were grossly underinsured. In fact, a Marshall & Swift/Boeckh's 2008 survey reported that 64 percent of U.S. homes are undervalued for insurance purposes, with the average homeowner having enough insurance to rebuild only about 81 percent of his dwelling. For most families, this is a major problem.

A Word On Underinsurance In California & AB 2022

The sheer volume of underinsured homes after the California fires has led to the crafting and passage of **AB 2022** . . . effective 7/1/11 . . . which revises the California **Residential Property Disclosure Form** (see sample language in appendix), making it more accurate and easier for consumers to read and understand their coverage by laying out a checklist of major variables in their policy as well as improved and more responsive claims handling practices. Applicants and insureds choose from among actual cash value, replacement cost and guaranteed replacement cost forms of coverage. Agents or insurers must indicate on the disclosure form which category of coverage the applicant or insured has selected or purchased.

AB 2022 also simplified and revised the **California Residential Property Insurance Bill of Rights** (see sample language in appendix) which explains the **legal rights** a consumer has when a loss has occurred.

The law mandates that the Disclosure and Bill of Rights be sent out with every newly-issued residential property insurance policy and on an every-other-year basis upon renewal. The goal of both this new legislation is to reduce underinsurance by providing consumers reliable estimates of what it might cost to completely rebuild a destroyed home. Until now, such estimates were previously unregulated.

AB 2022 also requires:

- All California resident fire and casualty broker-agents and personal lines broker-agents who have not already done so to satisfactorily complete one, three-hour training course on

homeowners insurance valuation (this course) prior to estimating the replacement value of structures in connection with, or explaining the various levels of coverage under a homeowners' insurance policy. Agents need to take this course on or before 6/30/11 before discussing (soliciting) dwelling fire or homeowners' insurance.

- Insurers, agents and brokers that provide replacement cost estimates to applicants and insureds must document who created the estimate and the sources or methods used to calculate the replacement cost estimate. **Note:** CCR 2695.183 does not require agents to conduct their own replacement cost estimates. A company provided system or outside sources like appraisers can be utilized to satisfy the replacement cost requirement.
- All replacement cost estimates communicated to applicants or insureds be complete, based upon specifically enumerated standards.
- Records must be kept on the name, job title, address, phone and license number, if applicable, of the person providing the estimate of replacement cost or construction costs or the source of the estimate, e.g., an online replacement cost calculator, contractors' estimate, appraisal, etc.
- Agents who provide the estimate of replacement cost must give the insured a copy at the time the policy limit is set and maintain records of this estimate for the entire term of the insurance policy PLUS five years thereafter. Any changes or updates to the replacement cost estimate must be provided to the applicant or insured within 60 days from the time it is generated. If an estimate was made but a policy never issued, estimate records must be kept for three years. (CCR 2695.182)
- Replacement cost estimates MUST NOT include a cost associated with **demand surge** . . . where the construction costs can dramatically increase after a major catastrophe. Agents should disclose to potential insureds that this demand cost has not been and legally cannot be taken into account in the estimate of replacement cost (CCR 2695.183). Agents can, however, apprise customers that additional coverage may be obtained to protect for this contingency (extended guaranteed replacement cost).
- Licensees who provide estimates of replacement cost or rely on estimates of others in regard to a recommended homeowner insurance policy MUST be sure the estimate includes all expenses that would reasonable by incurred to rebuild the insured structure in its entirety, including, but not limited to (CCR 2695.183):

Type of foundation

Type of frame

Roofing materials and type of roof

Siding materials and type of siding

Whether structure is on a slope

Geographic location of property

Number of stories

Materials used in, and types of, interior features and finishes

Cost of demolition and debris removal

Architects plans

Age of structure

Higher costs associated with replacing a single home versus multiple dwellings

The replacement estimate ***should not***:

Be based on resale value of the land or the outstanding balance of any loan
Include a deduction for physical depreciation

- An agent that provides an applicant or insured a copy of a replacement cost estimate that does not meet the above standards shall explain exactly what elements above it does not address and why.
- When an insurer requires an agent utilize a specific source or tool to create an estimate of replacement cost or construction costs the following must be followed:
 - ✓ The insurer shall prescribe procedures to be followed when they use the source or tool
 - ✓ The insurer will provide the agent training to properly use the tools or source
 - ✓ The insurer and not the agent will be responsible for any noncompliance

Many of these issues are discussed in greater detail throughout this course.

Underinsurance and Agents / Insurers

In a perfect world, every replacement cost estimate you do will be accurate and result in all your insureds being fully covered in a major disaster. Of course, this doesn't always happen.

What happens if your estimate is wrong and, more specifically, the homeowner is found to be underinsured in a major loss?

Before AB 2022, the general rule was that an insured is responsible for the establishment of their policy limit and an insurance agent or broker did not have a duty to volunteer that an insured should procure additional or different insurance coverage (*Fitzpatrick v. Hayes*, (1997) 57 Cal.App.4th 916 [67 Cal.Rptr.2d 445].)

Exceptions to this rule evolved over time:

Jones v. Grewe (1987)

In *Jones*, the court determined that an insurance agent could *not* be held liable for failing to obtain sufficient limits on a *third-party* liability policy. The *Jones* court reasoned that an agent could not accurately forecast the upper limit of liability insurance that the insured would need and further noted that extending liability to agents for not obtaining sufficient liability limits would effectively transform the agent into an excess insurer.

Free v. Republic Insurance Co (1992)

In this case, the insured asked his broker whether the policy limits would be sufficient to cover his home in the event of a total fire loss, and the broker represented that he was ***fully insured to value***. When the insured was determined to be underinsured after a loss, the broker was held liable. In so ruling, the *Free* court made a distinction between misrepresentations about limits on *first-party* property coverage as opposed to misrepresentations on *third-party* liability coverage as was involved in *Jones*. The *Free* court reasoned that in a *first-party* setting, an agent or broker *can* objectively determine the amount of coverage necessary to replace a

dwelling after a total loss which was the basis it distinguished itself from *Jones*, which as stated above dealt with third party liability limits.

Desai v. Farmers (1996)

Here, the insured advised his agent that he wanted **100 percent coverage** for his dwelling in the event of a total loss. However, the policy that was delivered to the insured only provided for coverage up to \$150,000, and there was no Guaranteed Replacement Cost benefit. After the Northridge Earthquake, the cost to repair the insured dwelling was \$546,757. The Court held that the agent could be held liable because the agent “negligently represented that the policy in fact provided the 100 percent replacement cost coverage that [plaintiff] demanded ... This is not a ‘failure to recommend more coverage’ case; it is a ‘failure to deliver the agreed-upon coverage’ case” (*Id.* at 1119 (Emphasis added).)

Fitzpatrick v. Hayes (1997)

In this case, the court analyzed the history of authorities dealing with liability of agents and brokers for under-insurance as reflected, among other cases, in *Jones*, *Free*, and *Desai*. The *Fitzpatrick* case then summarized and set forth the three recognized exceptions under California law to the general rule of no liability of agents and brokers for under-insurance as follows: As a general proposition, an insurance agent does not have a duty to volunteer to an insured that the latter should procure additional or different insurance coverage....The rule changes, however, when - but only when - one of the following three things happens:

- a) The agent misrepresents the nature, extent or scope of the coverage being offered or provided;
- b) There is a request or inquiry by the insured for a particular type or extent of coverage; or
- c) The agent assumes an additional duty by either express agreement or by “holding himself out” as having expertise in a given field of insurance being sought by the insured.

In all of these cases, the focus was generally on whether the agent **represented** to the insured that the limits were sufficient; whether the insured specifically asked about the sufficiency of the limits; and/or whether the insured requested that he/she be fully covered and protected, etc.

So the issue is not whether the agent **guaranteed** that the estimate was sufficient, but rather, whether through interaction with the insured the agent misrepresented the adequacy of the limits or failed to deliver upon the full protection requested. There are also cases where the insured never spoke with the agent or broker about the policy limits. Because, in some cases, insureds blindly rely upon the agent to set sufficient limits without ever questioning or discussing it. Here, an attorney might attempt to prove the insured relied on the agent or perhaps the agent held himself out to be an expert in homeowners insurance.

What about new computer programs and tools to estimate value? They may help protect the agent / insurer because they are reliable third party sources, but if the homeowner still asks **will it provide full protection** and the agent affirms adequate coverage, liability continues with the agent / insurer under *Fitzpatrick* even where the agent **never guaranteed** that the limit would be sufficient and that any proposal they made about the policy limit was “just an estimate.” Plaintiff attorneys will also likely attempt to poke holes in the quality of the valuation tools (estimates way off track, faulty calculations, etc) or use agent language that praised the tools as “accurate” or “backed by millions of dollars of research” to pursue an underinsurance claim.

There could also be language in the actual policy that implicates liability of the insurer. Here is one such example:

The limit of liability shown on the Policy Declarations for 'Coverage A – Dwelling Protection' will be revised at each policy anniversary to reflect the rate of change in the replacement cost of your dwelling as identified in the Policy Declarations.

This carrier has contractually obligated itself to increase the policy limit to keep pace with the rate of change in the replacement cost of the dwelling. This could be yet another basis for liability in an under-insurance case.

Everett v. State Farm (2008)

In a reversal of many of the above cases, in Everett the court held that the homeowner, rather than the property insurer, had the duty to maintain insurance policy limits equal to replacement costs. In reaching this conclusion, the court relied on the current version of the residential property disclosure which places the burden of determining whether a higher policy limit is needed on the homeowner.

The **passage of AB 2022**, however, appears to effectively **nullify Everett**. Pending new litigation, it looks like the liability ball is back in the agent-insurer court. Agents / insurers must determine replacement cost value.

Homeowners vs. Dwelling Policies

To understand how new valuation rules apply, we need to differentiate between homeowner and dwelling policies.

Under California Insurance Law (10087) a **policy of residential property insurance (homeowners policy)** shall mean a policy insuring **individually owned residential structures of not more than four dwelling units**, individually owned condominium units, or individually owned mobilehomes, and their contents, located in this state and used exclusively for residential purposes or a tenant's policy insuring personal contents of a residential unit located in this state."

A policy of residential property insurance, as defined, shall not include insurance for real property or its contents if used for any commercial, industrial or business purpose, except a structure of not more than four dwelling units rented for individual residential purposes. A policy that does not include any of the perils insured against in a standard fire policy shall not be included in the definition of "policy of residential property insurance."

Dwelling policies differ from homeowners in that they typically do not cover liability, medical payments or contents. They are designed for a residence owned by an insured that he or she does not occupy.

Homeowners vs Dwelling Coverage

Homeowners Coverage

Homeowners need protection from **3** major risks:

- 1) Damage or destruction to the house
- 2) Damage or destruction to personal property
- 3) Liability (and any lawsuits)

Homeowner policies (HOPs) are designed to protect a person or family against the **3** above risks. Whether an insured owns or rents a home, a HOP provides valuable and necessary protection.

Most insurance companies offer Homeowners Package Policies that provide coverage for all the risks. Besides combining coverages for the dwelling, personal property, and personal liability, the HOPs also include **fire**, **theft**, and **vandalism**, along with other extended and additional coverages.

HOPs cover any and all common problems associated with owning or renting a home. The HOP is also more complete and convenient than the dwelling policy (DP), which is why Homeowners Package Policies are more popular. The coverage definitions and policy contract terms are similar between the HOP and the DP.

Not only do HOPs offer “one-stop shopping” coverages, the packages are often priced more competitively than the DPs. In order to protect competitive pricing, insurance companies look for clients who are “better-than-average” risks, e.g., clients who show pride of ownership and live in preferred dwellings.

A client must meet the following eligibility guidelines for an HOP:

- The house has to be occupied by the owner with a maximum of **2**-family units (remember the DP allows up to 4-family units)
- The home has to be inspected to make sure heating, plumbing, and electrical systems meet state codes, and are installed properly.
- The owner has to be checked for his/her “loss history”—the number and type of insurance claims he/she has filed in the past.
- Property is inspected for Pride of Ownership—is the house in good condition? Is the house well-constructed? Is the landscape well-kept? Are there any uninsurable risks on the premises?
- The house is a residential property, and is never used for commercial purposes.

Dwelling Coverage

Dwelling insurance is used more frequently for landlord (tenant) properties and homes that don't qualify for “standard” or “preferred” homeowners insurance policies.

Dwelling policies are similar to homeowners policies. Both provide property insurance for:

- Residential dwellings and contents
- Appurtenant structures/other structures on covered premises
- Loss or damage to the dwelling

Eligible and/or ideal Dwelling policy properties are:

- Rental properties (1-4 units or apartments)

- Older and/or lower-valued homes
- Homes with minor cosmetic problems
- Homes with a market value that's below replacement cost
- Customers with credit and/or loss problems
- Dwellings under construction, vacation homes, or rentals
- Permanent mobile homes—a mobile home that isn't on wheels
- Offices, studios, or storage facilities

Under certain circumstances, an insured could prefer a Dwelling policy (DP) over a Homeowners policy (HOP). Such as:

- The property is vacant
- The insured isn't living in the dwelling, but could be renting it
- Up to five roomers or boarders occupy the dwelling
- The dwelling is rated poor to good based on condition, value, and age
- The insured is required to only carry coverage protecting the dwelling

Homeowners Insurance Valuation



SECTION II: BASIC CONCEPTS OF PROPERTY VALUATION

Loss Settlement Provisions & Underinsurance

Loss settlement provisions in homeowner policies define the method that will be used to determine the ***amount of money*** the insured will receive for a claim.

Usually this provision stipulates that claims will be paid on an actual cash value (ACV) or replacement basis. This provision also determines how claims will be paid per item, per loss, e.g., items A, B, and C are all covered on an ACV basis, but items X, Y, and Z are covered on a replacement basis.

Here is how a typically replacement cost loss settlement provision might read:

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*
- 3) The necessary amount actually spent to repair or replace the damaged building.*

How Do Loss Settlement Provisions Apply?

In the homeowners form, the loss settlement provision cited above is used specifically to determine whether the insured gets full replacement cost (RC) for the loss. If the proper amount of coverage is carried, the insured gets a full RC settlement up to policy limits. If coverage is not sufficient, the policy provision goes on to state that the insured will either receive a proportionate amount of the RC or the full ACV, whichever is greater.

Unlike commercial "coinsurance," the HO program has no "penalty." The insured, assuming adequate limits to cover the amount of loss, always gets a minimum of the full ACV, with a maximum of full RC.

So our question above is not about penalties, but simply whether the insured can expect a full RC settlement of his "other structure" loss (or losses). Let's take the policy language exactly as written and walk through a possible scenario.

The insured has \$300,000 of Coverage A. He has three "other structures" covered by his policy: a \$27,000 detached garage, a \$5,000 gazebo and a \$20,000 swimming pool. (There are a myriad of other possibilities, such as mailboxes, satellite dishes and kid's playground equipment, but we don't want to get bogged down in a debate over whether some consider those Coverage C instead of Coverage B.)

If the garage is damaged by a covered peril, how should the policy loss settlement provision be applied?

The key wording is "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...". Assuming that "building" is to be read, for Coverage B purposes, as "structure", the clear language states that the limits of insurance are to be applied to the specific structure (singular) damaged. So the question becomes, "Is \$30,000 (the coverage B limit provided by \$300,000 Coverage A) at least 80% of the value of the garage? Yes, it is. The insured gets a full RC settlement for the garage damage.

Since no policy language states or implies that for purposes of the settlement clause the values of all the other structures must be added together to calculate the compliance with the 80% provision, the clear language must be taken as is. The amount of insurance available on the damaged structure is the route to take.

Does it make a difference whether multiple "other structures" were damaged? Although it can be argued that the situation would then be less clear, we don't think so. The policy language appears to allow the settlement provision to be applied similar to a "separation of insureds" clause-to each damaged structure as if the others didn't exist. So if all three other structures in our example were damaged, the insured could argue that each is in full compliance with the loss settlement provision, since the \$30,000 Coverage B limit is more than adequate to meet the 80% test for each structure.

If such an analysis seems overly generous to the insured, keep two things in mind: First, we aren't arguing coverage, only whether the insured gets an RC settlement or ACV for a covered claim. Second, as in the "separation of insureds," this doesn't increase the carrier's liability. It is still limited to a total of \$30,000, no matter how many damaged structures the insured adds to the claim.

Does it make any difference if the insured increases Coverage B, either in blanket fashion or by specific coverage for certain structures by endorsement? Barring specific language in the endorsements modifying the basic policy loss settlement provision, no. Adjust each structure separately and let the RC limits fall where they may.

Underinsurance and Settlements

The obvious result of underinsuring a home is the inability to replace it. At actual cash value, the homeowner receives less when depreciation is factored. Even if the homeowner purchased replacement cost coverage, all may not be well at settlement time. As we discussed above, replacement cost policies typically contain a co-insurance clause. The coinsurance clause may require a homeowner to insure the property in question for at least 80% of its replacement cost. Replacement costs can fluctuate over the course of an insurance policy. So, for a \$300,000 home, one would be required to carry at least \$240,000 in coverage for the dwelling.

If a homeowner insured his home for only \$150,000 because that's all he owed on the mortgage, and suffered a total loss, he would incur a financial penalty for having it underinsured. The penalty usually consists of having to cover a certain percentage of the underinsured portion of the home value. However, the settlement is never less than actual cash value. This clause protects the insurance company from issuing replacement cost policies where the home is insured for much less than it would cost to rebuild.

Some insurers offer an endorsement (extra addition) to their homeowner's insurance policy that add an additional 25% to 50% replacement cost coverage in the event it's necessary. This is often referred to **as extended replacement cost**. Applied to the case above, the \$300,000 home would qualify for an additional \$75,000 in replacement cost coverage if one chose the 25% extended coverage. So if it costs \$350,000 to rebuild this home exactly the way it was, this homeowner would be covered. Of course, this option costs a little more.

Actual Cash Value vs. Replacement Cost Value

The terms "replacement cost" and "actual cash value (ACV)", are loss valuation methods insurance companies use to determine how much money they will pay out in the event of a covered cause of loss (claim) after any deductible is applied.

NOTE: Replacement cost for a home and for the contents of your home are two different policy endorsements. If one wants personal items to be replaced at their cost to purchase new, he must request that separately.

The best way to discuss replacement cost and actual cash value is by a settlement example. Let's say the cost to build a home is \$400,000. Unfortunately, it burns down as a result of an electrical fire caused by a clothes dryer. How the homeowner is reimbursed differs by the loss settlement method he agreed to and paid for:

Actual Cash Value Settlement

If the homeowner purchased ACV coverage, he (and the lender if he had a mortgage) would be paid the actual cash value of the home at the time of the loss. ACV is calculated as the replacement cost of the home minus depreciation. Depreciation is the loss in value of a piece of property over time.

\$400,000 replacement cost – \$100,000 in depreciation = \$300,000 ACV

He would receive a check for \$300,000. Of course, the lender gets their share of the money first. You can easily see how the homeowner would not receive enough money to rebuild his \$400,000 home. In fact, he'd be exactly \$100,000 (how much his home depreciated since its purchase) short. This is not a good position to be in.

Likewise, if the ACV was \$300,000, and he owed \$350,000 on the mortgage, he would be stuck with a \$50,000 bill owed to the lender. This is why mortgage lenders often require replacement cost coverage on a mortgaged home.

A home typically costs quite a bit more to rebuild than it did when one originally purchased or built it. Likewise, homes are often built in large numbers in certain developments, which drives down the construction costs. So, having to rebuild only one home is likely to cost more. For this and other reasons, homeowners purchase a replacement cost policy.

Replacement Cost Value Settlement

Had the above homeowner purchased replacement cost coverage, he would receive the entire \$400,000 in the event his home burned down. The depreciated value of the home is not a factor in the settlement received from your insurer.

Market Value

Many people confuse market value and replacement cost. ***Insurers do not use a home's market value as a loss valuation method.*** The terms have different meanings when it comes to insurance. For example, a home may have a replacement cost of \$400,000, an ACV of \$300,000 due to depreciation, but due to a lagging economy for instance, a market value of only \$250,000.

Market value fluctuates and is not a number that can be calculated using a mathematical formula or by calculating the costs of labor and materials to rebuild. The market value of a home changes at the whim of who would be willing to buy it for a certain price at any given point in time.

Replacement Cost Values Among Different Structures

Another element of confusion among insureds is the type of structure and its affect on replacement cost. Let's look at two different but similar sized houses:

One is a fine tract home built in 2004 and the other is a 2 1/2 story federalist style brick home built in 1860 in a historic district of town. Both have a market value that is roughly the same, but the construction techniques are very different.

The tract home has 2800 SF and a combo of vinyl and stone facing on the exterior. Common asphalt roof, poured concrete basement, framed with 2X4, 2X6, engineered floor trusses and manufactured roof framing. Steel exterior doors and wood/vinyl windows. Interior is plywood sub-floors with carpet, ceramic tile, vinyl sheet tiling, and engineered wood flooring, walls are drywall. Interior doors are hollow core 6 panel with basic oak baseboard and door trim. The kitchen has standard appliances, granite tile counter tops and semi-custom cabinets. It also includes a pre-fabricated gas fireplace with manufactured mantel and surround, a modern furnace & HVAC. A very nice home in a upscale neighborhood, it has a market value around \$400,000. Good quality all around, but nothing unusual in the construction materials. Almost everything in the house can be purchased or ordered at Lowe's and any competent handyman or construction crew can repair the house.

The 1860 house at 2200 SF has original antique brick exterior with a slate roof. The basement walls are field stone and mortar; at some point the original basement floor has been replaced with poured concrete. The framing is full dimensional lumber with original hardwood floors. Original solid wood exterior doors, original wood windows some leaded decorative windows. Solid wood interior doors, antique oak trim, including hardwood stairs, handrails, chair rails, crown molding (man you'd think the stuff grew on trees). Original brick fireplaces (four of them) and original gas lights (refitted for electric). Modern kitchen and cabinetry, upgraded plumbing, electric & HVAC. A historic home in a upscale historic neighborhood, market value also \$400,000. All materials in home need to be repaired since replacement is difficult. To find existing or matching trim, material needs to be salvaged or recreated from antique material. Handymen are usually not up to the job, craftsmen with a specialty in older construction are needed and they don't work cheap.

So what would replacement cost be on both houses? On the newer house, a percentage of the retail value comes from the price of land in a trendy of the neighborhood. Using an industry calculator, the replacement cost for the house might range from \$290,000 to \$360,000

depending on features inside the house. This would suggest the land value of the lot is around \$75,000.

Using the same calculator on the older house, replacement cost would range from \$650,000 to \$750,000. The price of the house is dictated more by the market demand for this type of house and less by the value of the land and reconstruction costs. Yet at a real estate closing table, both parties want to see the same replacement cost on their insurance policy. In fact, even after a extensive explanation of historic house replacement, the owner of the 1860s house would probably insist on a lower replacement cost to keep his homeowners premium down.

Functional Replacement Cost

Some policies specify loss settlement terms as **functional replacement cost**, wherein the insurer would cover the loss at replacement cost to build an old Victorian home using the most new or modern day techniques and materials. This usually results in a lower cost to the insurer. A homeowner with a fully restored home, however, may not be pleased.

Realistically, the cost to recreate outdated construction techniques from the 19th century, when the home was originally built, could be staggering and not a good deal for the insurance to pay \$700,000 of insurance coverage for a home that's only really worth \$400,000. Additional coverage, however, may be available for homeowners wanting original quality replacement.

California Residential Disclosure

The new disclosure form, drafted in plain and simple language, improves the current form and makes understandable the differences in residential insurance coverages available to California insurance consumers. The changes, however, are much more than stylistic.

The regulations establish standards for accurate replacement cost estimating, broker agent training on replacement cost estimating, and new record keeping requirements. The Proposed Regulations place the burden of accurately estimating replacement value of a home squarely with the insurer and agent. The new disclosure form, the first step towards this regulatory reform, removes critical language found in the current disclosure form that obligates the consumer to determine and maintain the proper policy limits on their home.

PART 1

California Residential Property Disclosure Form . . . Effective July 1, 2011

Effective **July 1, 2011**, insurance companies must use the new disclosure form. The new form eliminates legalese and presents the different coverage levels in a reader friendly manner. The new form calls specific attention to the fact that "actual cash value" coverage is "the most limited level of coverage listed," while "guaranteed replacement cost" coverage is "the broadest level of coverage." The new coverage definitions are as follows:

- **ACTUAL CASH VALUE COVERAGE** pays the costs to repair the damaged dwelling minus a deduction for physical depreciation. If the dwelling is completely destroyed, this coverage pays the fair market value of the dwelling at the time of loss. In either case, coverage only pays for costs up to the limits specified in your policy.
- **REPLACEMENT COST COVERAGE** is intended to provide for the cost to repair or replace the damaged or destroyed dwelling, without a deduction for physical

depreciation. Many policies pay only the dwelling's actual cash value until the insured has actually begun or completed repairs or reconstruction on the dwelling. Coverage only pays for replacement costs up to the limits specified in your policy.

- **EXTENDED REPLACEMENT COST COVERAGE** is intended to provide for the cost to repair or replace the damaged or destroyed dwelling without a deduction for physical depreciation. Many policies pay only the dwelling's actual cash value until the insured has actually begun or completed repairs or reconstruction on the dwelling. Extended Replacement Cost provides additional coverage above the dwelling limits up to a stated percentage or specific dollar amount. See your policy for the additional coverage that applies.
- **GUARANTEED REPLACEMENT COST COVERAGE** covers the full cost to repair or replace the damaged or destroyed dwelling for a covered peril regardless of the dwelling limits shown on the policy declarations page.
- **BUILDING CODE UPGRADE COVERAGE**, also called Ordinance and Law coverage, is an important option that covers additional costs to repair or replace a dwelling to comply with the building codes and zoning laws in effect at the time of loss or rebuilding. These costs may otherwise be excluded by your policy. Meeting current building code requirements can add significant costs to rebuilding your home. Refer to your policy or endorsement for the specific coverage provided and coverage limits that apply.

The new disclosure form also **removes** the following statements from the replacement cost coverage definitions in the current disclosure form:

To be eligible for [this coverage], you must insure the dwelling to its full replacement cost at the time the policy is issued, with possible periodic increases in the amount of coverage to adjust for inflation and increases in building costs; you must permit inspections of the dwelling by the insurance company; and you must notify the insurance company about any alterations that increase the value of the insured dwelling by a certain amount (see your policy for that amount)."

To be eligible to recover this benefit, you must insure the dwelling to [company shall denote percentage] [] percent of its replacement cost at the time of loss."

The agent or insurer shall indicate on the disclosure form which category of coverage the applicant or insured as selected or purchased (CIC 10102).

California Residential Property Insurance Bill of Rights . . . Effective 7/1/11

The revised bill of rights that must accompany the new disclosure form eliminates the first 16 lines of the current disclosure form. The omitted lines include statements concerning the applicant's/policyholder's burden to determine and maintain proper policy limits such as: "Take time to determine the cost to rebuild or replace your property in today's market." "Once the policy is in force, contact your agent or insurance company immediately if you believe your policy limits may be inadequate."

Depreciation and Claims

As previously discussed, actual cash value is replacement cost less depreciation. The entity responsible for determining the depreciation is ultimately the insurance company. They decide the amount of depreciation and will subtract that amount from the cost to repair the property.

The rate will stand as they decide unless a homeowner challenges their calculations . . . some do.

The way these rates are determined is through published depreciation tables. These tables list the useful life and depreciation of a wide variety of properties. Such depreciation tables can be accessed through most insurers and may even be found online. More often than not, home insurance adjusters, and their claims departments, have computer software that has the insurance depreciation tables factored in. Such software makes figuring depreciation very easy and almost error free. The insurance adjuster simply fills in the type of property, its condition and its age and the software figures the depreciation automatically.

California Claims

California law is very specific on the handling of dwelling claims:

California Insurance Code 2051.5

Under an open policy that requires payment of the replacement cost for a loss, the measure of indemnity is the amount that it would cost the insured to repair, rebuild, or replace the thing lost or injured, without a deduction for physical depreciation, or the policy limit, whichever is less. If the policy requires the insured to repair, rebuild, or replace the damaged property in order to collect the full replacement cost, the insurer shall pay the actual cash value of the damaged property, as defined in Section 2051, until the damaged property is repaired, rebuilt, or replaced. Once the property is repaired, rebuilt, or replaced, the insurer shall pay the difference between the actual cash value payment made and the full replacement cost reasonably paid to replace the damaged property, up to the limits stated in the policy.

The process of retaining a portion of the claim until work is down is called **depreciation holdback**. It is a fairly standard practice in replacement cost policies. The concept is relatively simple: Policies obligate insurers and they are liable for such costs until repair or replacement had been completed. To be sure this is done, the insurer will **holdback** an amount until repairs are made. The amount held back is typically the difference between actual cash value and the replacement cost. In essence, they holdback the amount of the depreciation, thus it is called the depreciation holdback. Homeowners are often frustrated in learning this as they are now charged with the task of completing repairs without the full amount needed to make them. However, most contractors understand the holdback concept and will work with homeowners to finish repairs and wait for their full payment until the homeowner has received the holdback amount.

Again, the values we are discussing with regard to claim valuations is replacement cost and actual cash value **not** market value. The market value of a property may be completely different than replacement cost or ACV.

Homeowners Insurance Valuation



SECTION III: COMPONENTS OF DWELLING REPLACEMENT VALUE

Replacement cost valuation has many variables. Licensees who provide estimates of replacement cost or rely on estimates of others in regard to a recommended homeowner insurance policy **MUST** be sure the estimate includes all expenses that would reasonable by incurred to rebuild the insured structure in its entirety, including, but not limited to (CCR 2695.183):

- Type of foundation
- Type of frame
- Roofing materials and type of roof
- Siding materials and type of siding
- Whether structure is on a slope
- Geographic location of property
- Number of stories
- Materials used in, and types of, interior features and finishes
- Cost of demolition and debris removal
- Architects plans
- Age of structure
- Higher costs associated with replacing a single home versus multiple dwellings

The replacement estimate ***should not***:

- Be based on resale value of the land or the outstanding balance of any loan
- Include a deduction for physical depreciation

Following is a more detailed discussion of considerations that should be addressed in any replacement cost valuation:

Corners

The shape of the outside perimeter is an important consideration in estimating the total construction cost. Generally, the more complex the shape (more corners), the ***more expensive the structure*** is to replace. The shape classification of multiple story or split-level homes is based on the outline formed by the outer most exterior walls, including the garage area, regardless of the varying level. Most structures have 4, 6, 8 or 10 corners. Small insets not requiring a change in the roof shape can be ignored when determining the shape.

Foundations

House foundations vary enormously from one part of the country to the other. There are three major types of foundations that are used when building a home. In much of the south, the most common type of foundation is the slab on grade. Another common type of foundation is the pier and beam and the third most common is basement or t-shaped, which is found in more Northern areas.

The ***t-shaped*** foundation or basement is a traditional foundation method to support a structure

in an area where the ground freezes. This is where you have a concrete slab poured on the ground down at the bottom of the hole. A footing is placed below the frost line and then the walls are added on top. The footing is wider than the wall, providing extra support at the base of the foundation. According to ConcreteNetwork.com, a website dedicated to concrete information, a t-shaped foundation is placed and allowed to cure, the walls are then constructed and then the slab is poured between the walls. This foundation is used in colder climates, typically in northern states. The walls are used to support the house.

Another foundation used is the **slab on grade** foundation. This foundation is the most popular in southern and many western states. It is a single layer of concrete that is several inches thick. The slab is poured thicker at the edges to form an integral footing and then rods are placed to strengthen the thick edges. The slab is sometimes poured on a bed of crushed gravel to improve drainage. Also, a wire is placed in the concrete to reduce the chances of it cracking in the future. A slab on grade is typically used in areas where the ground doesn't freeze. It can also be used with insulation in northern states to prevent it from being affected by frost.

The third type of foundation is the **pier and beam**, also called a crawlspace because it is an accessible space with limited headroom, between the soil and the bottom of the first floor of a home. This foundation is used in areas with heavy clay content in the soil, such as Texas. They typically have a concrete wall that goes around the outside with a wood floor that spans from one side of the wall to the other. A footing needs to be poured and short foundation walls are built to support the home. A majority of the spaces are only 16 to 18 inches between the bottom of the floor joists and the soil. This foundation is considered the most economical of the three choices. This space allows installation of plumbing and heating utilities for accessibility. However, this space needs to be insulated. If not, water vapor can cause mold and moisture problems in the future. Also, if a trapdoor is installed, this can provide entry for when severe weather hits.

Roofing

Like foundations, roofing varies by location and customer preference. Concrete tiles are very popular in California, but not as practical on the east coast. Here some considerations and varieties:

Steel or Metal

Steel roof is good and durable. The structure of the roof will be more flexible and solid. Basically the corrugated steel roof is less weighty in comparison to other roofing devices. A metal roof is durable, however, they can be quite costly due to materials and special onsite installation. This may be offset by the fact that a typically metal roof will last at least 25 years -50 years. Metals like copper and zinc are so strong and solid they have been known to last over 100 years without any special upkeep. Of course, these same materials come at a premium cost.

Concrete Tile

Concrete roof has been used by many homeowners. They have high durability, flexibility in handling, good design and great style. One problem: concrete roofs require substantial structural support over other forms of roofing.

Flat Roof

Flat roofs are generally constructed of a plywood underlayment, followed by an asphalt roofing paper and a topping of crushed rock. A properly designed flat roof will have enough pitch to let water runoff without leaving puddle pockets or puddles. These roofs would not be suitable in areas where snow falls frequently.

Slate Roof

Authentic slate roofs use slate obtained from the mountains and mountain belt, making these roofs among the most expensive. Real slate slabs are heavy in weight. But, these weighty slates will be more helpful to make a roof which will outperform other roofing materials and metal sheets. There is also a type of synthetic slate roof which acts in the same way as the original. Synthetic slate is not only lighter in weight but less costly.

Green Roofs

These are very expensive and complicated roofing systems consisting of a waterproof substrate topped with growing material such as soil or grass. Benefits include added insulation value and the ability to actually grow a garden on your roof!

Solar Roofs

Solar roofs provide a lot of benefits but the panels and systems that make them work can be very costly and involve more maintenance than other roofs. A solar roof can be as simple as a row of solar panels or solar roof shingles/tiles with photovoltaic materials which transform sunlight into solar energy.

Siding

Stucco

Traditional stucco is cement combined with water and inert materials such as sand and lime. Many homes built after the 1950s used a variety of synthetic materials that resemble stucco. Some synthetic stuccos have been prone to problems. However, a quality synthetic stucco will prove durable. Tint the stucco the color you want, and you may never need to paint.

Stone Veneer

When you think of ancient monuments and temples, you think of stone that has stood the test of time. Granite, limestone, slate, and other types of stone are beautiful and nearly impervious to the weather. Unfortunately, they are also extremely expensive, so precast stone veneers and facings are now used for siding. These surfaces are durable, add beauty, but can be costly to buy and install.

Cement Fiber

Fiber cement siding can have the appearance of wood, stucco, or masonry. This durable, natural-looking material is often called by the brand names HardiPlank® and HardiPanel®. Fiber cement siding is fireproof, termite-proof, and may have a warranty up to fifty years. Some older homes have Cement Asbestos Siding made from Portland cement and asbestos fibers.

Removing that type of siding can be hazardous, so remodelers often apply a new, modern siding on top.

Wood Clapboard

Modern science has given us many synthetic wood-look products, and yet solid wood (usually cedar, pine, spruce, redwood, cypress, or Douglas fir) remain favorite choices for finer homes. With periodic care, wood siding will outlast vinyl and other pretenders. As with cedar shingle siding, wood clapboards can be stained rather than painted. Many wood frame houses built centuries ago still look beautiful today.

Brick Veneer

Made of fired clay, brick comes in a wide variety of earthy, eye-pleasing colors. Although it is expensive, brick is desirable because it can last centuries and probably won't need any patching or repairs for the first twenty-five years. Quality brick veneers are also attractive and durable, although they don't have the longevity of solid brick.

Cedar Shingle

Homes sided in cedar shingles (also called "shakes") blend beautifully with wooded landscapes. Made of natural cedar, the shingles are usually stained browns, grays, or other earthen colors. Shakes offer the natural look of real wood, but usually require less maintenance than wood clapboard. By using stain rather than paint, you can minimize peeling.

Engineered Wood

Engineered wood, or composite wood, is made with wood products and other materials. Oriented strand board (OSB), hardboard, and veneered plywood are examples of engineered wood products. Engineered wood usually comes in panels that are easy and inexpensive to install. The panels may be molded to create the look of traditional clapboards. Because the textured grain is uniform, engineered wood does not look exactly like real wood. Still, the appearance is more natural than vinyl or aluminum.

Seamless Steel

Seamless steel siding is very strong and resists shrinking and bulging when the temperatures change. The siding is custom fit to the exact measurements of your house. You can purchase steel siding with a wood-look texture. Or, for a modern house, consider the industrial look of corrugated steel.

Aluminum Siding

You may think of aluminum siding as an old-fashioned option, but some builders offer it as an alternative to vinyl. Both materials are easy to maintain and fairly durable. Aluminum can dent and fade, but it won't crack the way vinyl will. Also, aluminum is fireproof and is not usually considered harmful to your health or the environment.

Vinyl Siding

Vinyl is made from a PVC (polyvinyl chloride) plastic. Unlike wood or cedar, it won't rot or flake. Vinyl is usually less expensive to purchase and install than most other siding materials. There

are, however, drawbacks. Vinyl can crack, fade, or grow dingy over time. Vinyl is also controversial because of environmental concerns.

Vinyl Coatings

If one likes the idea of vinyl but don't like the look of vinyl panels, another option is to spray on a liquid PVC coating. Made from polymers and resins, the paint-like coating is about as thick as a credit card when it dries. Liquid PVC became widely available only a few years ago, and reviews are mixed. The damage caused by poor application can be devastating.

Quality Class of Home

Single-family homes vary widely in quality and quality of construction is a major cost variable. In any given analysis of valuation, one must determine the grade of materials (windows, counters, appliances, insulation, roofing, etc) and construction (extensive trim, complicated framing, etc) in order to arrive at a proper valuation. Following is a possible system of rating quality:

Class 1 construction is the most expensive commonly encountered and Class 6 is the minimum required under most building codes. Most homes with features that fall in class 4, 5 or 6 are "spec" homes, built for sale to the public from stock plans. Class 1 and 2 homes have more than ten exterior corners and are usually built from custom plans prepared by an architect retained by the property owner. Most single-family homes have some characteristics of several quality classes. Note that exterior walls are either Frame (wood or light steel) or Masonry.

Location of Property

Homes built in housing tracts by merchant builders and homes built in suburban (but not remote) areas tend to cost less than custom homes built in well-developed metropolitan areas. Exclusive locations behind guarded gates and subject to association architectural rules require more planning and costs as well.

Construction costs are higher in some states than in others. Most valuation programs or systems account for this using an index that compares costs in nationwide. This index considers all the major construction cost variables, including labor, material, equipment, climate, building codes, likely job conditions and markup. Many are sensitive down to a given zip code.

Building Code Upgrades & Seismic Retro-Fits

Older homes may have fallen under previous building codes. The same home needing replacement today might require addition upgrades to meet current building codes. An example might be a home built in the 60's using aluminum wiring, this home would need more expensive copper wiring when reconstructed. In California, there would most likely be some additional earthquake standards where additional shear walls and earthquake straps must be incorporated in any repairs.

Today, insurers are generally forced to offer law and ordinance coverage by law. If the insured does not obtain a policyholder's written refusal of law and ordinance coverage, any policy covering the dwelling is typically deemed to include the law and ordinance coverage--limited to 25% of the dwelling limit.

Appurtenant Structures and Amenities

Is there an attic, balcony, basement, attached or detached garage, outbuildings, etc.? Are these spaces finished or unfinished? Are they part of the occupied home or rentals? Everything affects value.

Other Areas Affecting Value

Is the house air conditioned? Is it central or individual units? How many furnaces? Electrical wallboard heaters? Electric wall heaters? How many fireplaces? Are they zero clearance? Do they have forced air blowers? Are they upstairs as well? Is the soil condition normal or clay? Is the home built on a slope adding to costs? Carpeting type and quality? Wood floors? Mirrors? Countertops, bath accessories, plumbing fixtures, cabinets, garage doors . . . they all affect the final valuation, as does their grade of quality. In addition to these costs, there are permits, cleanup, demolition, debris removal, insurance, loss of use (other accommodations during construction) and the cost of new plans to consider. Further, an estimate of reconstruction a home must also account for the fact that a single property is being rebuilt compared to multiple homes or a tract of homes . . . obviously, costs will be higher. So, as you can see, a lot goes into the valuation estimate.

Homeowners Insurance Valuation



SECTION IV: EFFECTS OF CATASTROPHES ON REPLACEMENT COST

Demand Surge

After certain ***large-scale natural disasters***, insured losses (prices for materials and labor) ***rise significantly***, compared to losses from smaller-scale events. Basically, the widespread nature of the catastrophe causes ***materials, labor, fuel shortages, transportation issues*** and a host of other supporting services to be in greater demand. Thus, in turn, places rising pressure on costs to increase. As a result, insurance claims greatly exceed expectation. Insurers have been known to pay double or more the normal settlement . . . even in cases where the homeowner was underinsured. An early observation of this phenomenon—known variously as “***demand surge***,” “loss amplification,” “catastrophe inflation,” etc.—followed the 1906 San Francisco earthquake and fire, and it has been noted frequently in the aftermath of major hurricanes and floods.

The amount of reconstruction work regionally is a sum of the repair work at individual properties. Understanding how much work is done at an individual property informs the understanding of the amount of work regionally. Individual property owners may attempt to reduce damage to their properties in disasters of any size. A property owner may take measures before the event to prevent damage or make emergency repairs immediately after the event to reduce additional damage. The scale of the disaster, however, may affect these efforts.

Damage may also accumulate in clustered events, possibly negating any efforts of the property owner. In a catastrophe, properties may be more likely to decay because of neglect (for example, mold can flourish in untended, water-damaged buildings). Properties damaged in a catastrophe may be more prone to additional damage because, for example, local authorities do not allow the population to return soon after the event (as in Hurricane Katrina), or property owners do not have immediate financing for repairs, or temporary patching materials may be in short supply. Thus, the amount of damage at an individual property may be greater because the property was damaged in a large-scale natural disaster.

A sample of first-hand accounts and explanations of demand surge provides a good explanation of the phenomenon. A structural engineer who accompanied claims adjusters after the 1994 Northridge, California, earthquake said that his insurer client routinely paid for obviously preexisting damage unrelated to the earthquake. The payment was made largely to expedite claims in a situation where the volume of claims would otherwise have been overwhelming. He estimated that, in aggregate, the insurer overpaid by a factor of perhaps two.

Agents & Demand Surge

Regardless of the reason for demand surge prices, replacement cost estimates by insurers or agents **MUST NOT** include a cost associated with “demand surge”. Agents should disclose to potential insureds that this cost has not been and legally cannot be taken into account in the estimate of replacement cost. (CCR 2695.183). Agents ***can***, however, apprise customers that ***additional coverage*** may be obtained to cover it

The 1991 Oakland Hills, California, fire, which destroyed 3,500 residences, provides another example of amplified insured losses. Many insurers found it politically prudent to compensate policyholders for the full replacement cost, even in the presence of gross underinsurance or policies lacking guaranteed replacement cost coverage. By settling claims in this manner, the insured loss may have been double what was owed strictly according to the policy.

Shortages, Shortages

Whether an *event overwhelms systems* refers to the degree to which demand exceeds locally available supplies of construction materials and labor or claims adjusters. If the latter occurs, insurers may rely on several measures to *handle claims*. Insurers may send in-house claims adjusters from other areas or rely on inexperienced adjusters. In anticipation of demand surge, insurers may have made agreements with contractors before an event to perform reconstruction work. Two additional issues that arise following large-scale events are ex gratia payments and the problems associated with concurrent causation.

The *scope of reconstruction work* at an individual property refers to: changes in the kind and quantity of construction materials; number of man-hours of skilled and unskilled labor; and any special equipment required because of the large scale of the event, such as backup generators that would not otherwise be required. It might be quantified by a ratio of contractors' direct costs (before overhead and profit) in the catastrophe environment to the direct costs in the absence of urgency or material and labor constraints.

The *prices of materials, labor, and equipment* refers to the change in the cost of a fixed basket of construction goods and services to construction contractors. This collection of goods and services is affected by: the distance from which goods and services must be brought to the affected area (i.e., *remoteness*); *transportation* delays caused by damage to the transportation network; and pre-disaster state of the *economy*, meaning construction unemployment and reserves. *Contractor profit* refers to the premium contractors can charge over their direct and overhead costs in the presence of high demand.

Private v. Government Insurers

Private property insurers do not indemnify all perils. For example, a standard homeowner's policy covers most fire, wind, and hail damage but not seismic or flood damage. Governments may provide coverage in hazardous areas not served by private insurers. Here, the peril may affect demand surge because the source of reconstruction financing depends on the peril: Insurers may be better able to provide immediate funds, whereas a government entity may provide delayed or reduced compensation. As an example, under the standard flood insurance policy dwelling form, the United States National Flood Insurance Program pays replacement costs only if the insured property is a single-family dwelling and the policyholder's principal residence, and the insurance is 80% or more of the full replacement cost or the maximum available. Otherwise, the NFIP pays actual cash value, except for mobile homes and travel trailers. The NFIP always pays actual cash value for detached garages, personal property, appliances, carpets and pads, outdoor equipment, and property abandoned as debris. Sufficient and immediately available reconstruction financing enables the demand for materials, labor, and equipment. Thus, the demand for materials, labor, and equipment and the supply of financing may provide more fundamental explanations of demand surge after an event than which peril is involved.

Regions

The region affected by a disaster may be similarly misleading. The “remoteness” of an area has been suggested to explain some past demand surge events. Isolated populations, such as those in Darwin, Australia, or on Kaua’I Island in Hawaii, may pay significantly more for reconstruction following disasters. However, geographic remoteness may not be a fundamental concern. In terms of demand surge, the ability to supply an affected area determines its **remoteness**. In Hurricanes Andrew and Katrina, contractors and materials were brought into the affected region. The relevant question then is not how far away, but more immediately, at what cost the materials, labor, equipment, and financing can be brought to the affected area. Thus, information on the capacity and costs of transportation and of temporary housing for workers seems more fundamental than distance. The particular region may also inform an assessment of the pertinent socioeconomic issues for demand surge.

Although the demanded materials, labor, equipment, and financing may be available and readily transported, local authorities may restrict the free movement of supplies and prices. Authorities may choose to set prices or place ceilings through anti-price gouging laws. The migration of labor from outside an affected area may be restricted or entirely prohibited. Thus, demand surge may vary by region, not because of physical geography, but rather because of the fundamental questions of physically supplying an area and any restrictions on the flow of those supplies.

Timing

Like the peril and region, the year of an event may not be fundamental to demand surge. Rather, the year may be a proxy for issues such as materials supply and the capacities of transportation systems. For example, materials suppliers may now rely on just-in-time-supply chains, rather than inventories. Thus, the reconstruction after recent disasters may be more vulnerable to materials shortages than after disasters of twenty or fifty years ago. In regions with recently well-developed transportation systems, however, the ease of moving materials may offset the problem of smaller inventories. Again, the year *per se* may not provide fundamental information about demand surge.

The sequence, or timing, of events may also not directly affect demand surge. A single event, isolated in time and location from another event, might be seen as a standard disaster to which other disasters can be compared. Thus, it can be used in comparisons with the more unusual catastrophe-following-catastrophes or clustered events. For a catastrophe following catastrophe, there is the inherent problem of widespread concurrent causation. Insurance adjusters would be asked to distinguish the source of damage, making their work more difficult (and thus more expensive) after a catastrophe following catastrophe than after a single event.

More Events

A cluster of events raises additional considerations. At the regional level, the demand following a first event may have exceeded the local supplies, and efforts began to meet this demand. Thus, a second, third, or fourth event may not cause a disequilibrium in supply and demand as large as the original disruption. Also, events subsequent to the first in a cluster may not cause as much damage because many properties have not been repaired after a previous event. In this case, the demand for materials, labor, equipment, and financing may not increase as much after a subsequent event as after a first event.

In summary, the typical characterization of an event according to its peril, region affected, and year of occurrence does not appear to be useful for understanding demand surge. Our current understanding suggests that there are more fundamental questions surrounding the demand and supply of materials, labor, equipment, and financing, which are more directly relevant to a qualitative and quantitative description of demand surge.

Building Codes

The level of repair required by building codes, and enforced by the building authority, may also affect the amount of work at a property. The building code in force during the reconstruction period may require a heavily damaged structure to be built to a higher standard than what was required when it was originally built. The rebuilding requirements affect the amount and type of construction materials and the necessary skill of the labor. Although newer building codes tend to become more strict, there can be exceptions: building codes may not be enforced (for example, before Hurricane Andrew, or the local building department may temporarily suspend certain provisions to allow for speedier recovery (for example, after Hurricanes Iwa and Iniki. Furthermore, insurers or property owners may not have accounted for changes in building code requirements when determining the replacement cost of properties. This is properly a valuation problem for the insurer, but it can masquerade as demand surge in catastrophe models, which usually rely on multiplying a damage factor by (in this case, an erroneously low) replacement cost.

Performance

Judgment may also affect the amount and speed of work performed at a damaged property. Contractors and insurance claims adjusters may be pressured to quickly define the amount of work to be done. The adjuster might have a long list of properties to visit, making each loss assessment quickly and carelessly. Contractors and claim adjusters may not have enough, or the right, information available about repair work at a property at the time of a repair estimate or claim adjustment. An initial assessment of damage may not identify all damage, and unanticipated damage may be encountered only after demolition and repair work have begun. These types of judgments about the amount of repair work following a catastrophe must be made but may not be fully informed.

Delayed Repairs

The time when reconstruction begins at a property may affect the final loss. Delayed repairs may be more expensive because of deterioration of, or additional damage to, the property. Also, labor wage rates, contractor overhead and profit, and materials prices can change during the reconstruction period. These issues may be more significantly affected by the regional factors described in the following paragraphs than by characteristics of the property. A backlog of properties damaged in a previous event or a construction boom in the region may delay work at a recently damaged property (for example, during the 2004 and 2005 hurricane seasons in Florida). The organization of the reconstruction effort, if any, may determine the prioritization of work. Contractors may determine a work schedule on a first-come-first-served basis, or they may prioritize work according to potential profit. The government may prioritize the repair of damaged properties, as was the case after the 1999 Sydney Hailstorm. If the general population evacuated, there may be a delay in reconstruction until there is a critical mass of people. The disruption of electrical power may also affect the timing of rebuilding, unless there are sufficient supplies of portable generators.

Debris Removal

Debris removal can be critical before reconstruction can begin at a property. Storm surge in Hurricane Katrina pushed substantial quantities of debris onto properties near the shore along the Mississippi coast, hindering access. In addition to disposing of structural components and building contents, there may be hazardous materials requiring special attention, as was also the case in Katrina. Debris removal may also be hampered by insufficient landfill space. The efforts of local and national governments may affect the timing of reconstruction. Rebuilding may not begin until the local government allows the release of building permits. For example, as of 30 June 2008 in Cedar Rapids, Iowa—seventeen days after flood-waters crested—the building department was issuing plumbing, electrical, mechanical, and building permits for flood repairs outside the 500-year floodplain only. The Cedar Rapids building department expected to release plumbing and electrical permits a few days after this date, but they would not grant building permits until the city decided on a reconstruction plan. For properties in the 100-year floodplain, the city had to consider the guidelines and regulations of the National Flood Insurance Program. As of 30 June, it was not clear whether the city would allow any rebuilding on the 100-year floodplain or adopt the NFIP requirement that properties with damage valued over 50% of the structure's value be rebuilt at least one-foot above the 100-year floodplain. The city recommended that property owners clear debris, dry the structure, and wait for a city council decision. The approach taken in Cedar Rapids suggests that local governments can affect the progress of reconstruction. The municipality may actively influence repairs and rebuilding, or it may passively allow reconstruction to be determined by property owners, financing, and the availability of materials, labor, and equipment. Finally, the building department may be overwhelmed, and permitting and inspections may be delayed (for example, after the 2004 hurricane season in Florida).

Other Factors

In addition to the above demand surge pressures, one must also consider extra services required after a disaster as part of the additional costs to reconstruct. Services might refer to expenditures by insurers to claims adjusting firms, or by insurers to construction contracting firms, or by construction contracting firms to businesses that serve them while they mobilize, market their services, do the repairs, etc. Since insurance claims include additional living expenses and other time-element losses, services in this context could mean virtually any expenditure paid to businesses at any distance from the catastrophe by any insured entity during the life of any time-element claim.

Homeowners Insurance Valuation



SECTION V: ENDORSEMENTS

Homeowner Policy Basics

There are six versions of HO package policies. All of the policy packages—except the HO 04—apply to owner-occupants, that is, someone who both owns and occupies the dwelling. The HO 04 is the Tenants form, which provides coverage for the personal property of renters.

The differences in the HO policy forms apply only to the property and personal contents coverage: the liability coverage is the same for all the HO forms. All of these HO forms include liability coverage as part of the HO package.

The forms include:

- **Broad Form (HO 02)** provides Broad form (named perils) coverage for both the dwelling and personal contents
- **Special Form (HO 03)** provides Special form coverage (all risk except for the named exclusions) on the dwelling and other structures, and includes Broad form (named peril) coverage on personal property.
- **Tenants Form (HO 04)** provides Broad form (named peril) coverage for tenants and renters. There is no coverage for the dwelling, because the renter doesn't own the dwelling.

Note: The owner of the dwelling should carry a separate DP or a Landlord Package Policy to cover any damages to the structure. That kind of policy wouldn't cover the tenant's personal property, so the tenant would need to carry an HO 04.

- **Comprehensive Form (HO 05)** provides Special form coverage (all risk coverage except for the named exclusions) on the dwelling, personal property, and other structures on the premises.
- **Unit Owners Form (HO 06)** provides Broad form (named peril) coverage for condo owners.
- **Modified Form (HO 08)** provides ACV modified peril coverage for owner occupied dwellings that are older or that are less desirable risks. This is the only coverage in which both the buildings and contents are protected only against basic named perils with the extended coverage perils and V&MM coverage. Again, this form is used a lot with older homes, that are higher insurance risks.

For each policy, there are typically 5 classifications of coverage. These are based on standard Insurance Services Office or American Association of Insurance Services forms.

Coverage A – Dwelling

Covers the value of the dwelling itself (not including the land). Typically, a coinsurance clause states that as long as the dwelling is insured to 80% of actual value, losses will be adjusted at replacement cost, up to the policy limits. This is in place to give a buffer against inflation. HO-4 (renter's insurance) typically has no Coverage A, although it has additional coverages for improvements.

Coverage B – Other Structures

Covers other structure around the property which are not used for business, except as a private garage. Typically limited at 10% to 20% of the Coverage A, with additional amounts available by endorsement.

Coverage C – Personal Property

Covers personal property, with limits for the theft and loss of particular classes of items (e.g., \$200 for money, banknotes, bullion, coins, medals, etc.). Typically 50 to 70% of coverage A is required for contents, which means that consumers may pay for much more insurance than necessary. This has led to some calls for more choice.

Coverage D – Loss of Use/Additional Living Expenses

Covers expenses associated with additional living expenses (i.e. rental expenses) and fair rental value, if part of the residence was rented, however only the rental income for the actual rent of the space not services provided such as utilities. **Limits** vary wildly, but typically could be **20% of coverage A**. For most insured homeowners, 20% will not be enough. ALE covers any necessary increases in living expenses incurred by you so that your household can maintain its normal standard of living.

Coverage may also be provided for storing personal effects, getting clothes cleaned, compensation for food since one cannot prepare meals while away from home.

Additionally, coverage could be available for transportation costs if the dislocated homeowner has further to drive to work, school, sports, doctors, dentists, etc. Boarding costs for your animals. Other expenses including chairs and beds, pots, pans, silverware, dishes and temporary electronics. Utility installation costs at a temporary residence including deposits utility companies typically require and even garbage pickup.

The costs of relocating a family can be substantial. Having enough ALE coverage could mean the difference between fleeing to a homeless shelter or a short term leased home with some dignity intact.

Instead of ALE, the Coverage portion of a policy may provide the option to be paid Fair Rental Value or house rent minus any expenses that stop while the house is not fit to live in. ALE would not cover garbage pickup, landscaping services or maid services while not in the home.

Additional Coverages

Covers a variety of expenses such as debris removal, reasonable repairs, damage to trees and shrubs for certain named perils (excluding the most common causes of damage, wind and ice), fire department charges, removal of property, credit card / identity theft charges, loss assessment, collapse, landlord's furnishing, and some building additions. These vary depending upon the form.

Exclusions

In an open perils policy, specific exclusions will be stated in this section. These generally include earth movement, water damage, power failure, neglect, war, nuclear hazard, intentional loss, and concurrent causation (for HO-3).

Common Endorsements

Insurance policies are written for the broadest market possible. To keep premiums affordable, only the coverage required by most people is included in the standard homeowners insurance policy. For instance, the standard policy does not include coverage for a home business, because most people don't have a home business. Therefore, to include such coverage in the standard policy would increase premiums even for people who don't have a home business. An **endorsement** (aka **rider**) is a written modification that either adds to or deletes 1 or more provisions of the general policy to serve particular needs. There are more than 100 endorsements for the standard homeowner's policy, including one for **identity theft**, but the following are the most common.

Inflation Guard Endorsement

Generally, if a home is not insured for at least 80% of its value, a coinsurance penalty will be applied, so the insured will receive less than the replacement cost if there is a loss. To prevent this, the homeowner can purchase an **inflation guard endorsement**, where the amount of the insurance is increased pro rata annually by an amount that the homeowner chooses—usually 4% or 6%. For instance, if a home is insured for \$100,000 and the insured chooses a 4% rate of increase, then if the insured suffers a complete loss in 6 months, the insurance will pay \$102,000; if the loss occurs 9 months later, then the payment will be for \$103,000; and if the loss occurs a full year later, the payment will be the full 4% annual increase or \$104,000.

Because the coverages for other structures, personal property, and loss of use are a percentage of Coverage A, which insures the main residence, this increase in coverage also applies to those sections. For instance, since the limits for personal property is 50% of the main coverage, the policy limit for personal property in the above example would be \$50,000, which would increase to \$52,000 (4%) at the end of the 1st year.

Scheduled Personal Property Endorsement

There is some personal property, such as jewelry or musical instruments, that have low coverage limits compared to what they may be worth, because most people don't have such property so they shouldn't have to pay the premium for it, and because it is difficult to verify the value of such items.

However, the homeowner can purchase a **scheduled personal property endorsement** that covers specified property for a specified value that is agreeable to the insurer. Generally, this is an open risks policy that pays for any direct loss, unless it is specifically excluded. The payout is equal to the **agreed value loss settlement**, which is the amount that the insurer agreed to pay in the event of a complete loss. Thus, if jewelry that was stolen was insured for \$10,000, the insurer will pay the insured \$10,000. There is no deduction for depreciation and no deductible.

Personal Property Replacement Cost Endorsement

The standard homeowners policy pays **actual cash value** for damaged or stolen personal property. Because of depreciation, actual cash value is almost always significantly less than **replacement cost**. To remedy this, the homeowner can purchase the **personal property replacement cost endorsement**, which will usually pay the replacement or repair cost without any deduction for depreciation. However, it does not apply to scheduled personal property, which has a separate endorsement, and the actual payment from this endorsement is the least of the following: repair cost, replacement cost, total limits for personal property, or the limit for a particular item.

If the amount exceeds \$500, then the item must be either repaired or replaced. Besides scheduled property, other excluded property includes property in poor condition and stored property that is little used.

Personal Injury Endorsement

Although the standard homeowners policy covers bodily injury and property damage, it does not cover **personal injury**, which includes false arrest, wrongful eviction or entry, invasion of the right of privacy in a room or dwelling, slander and defamation, or the violation of the person's right to privacy—in other words, injuries that don't affect the body. The **personal injury endorsement** covers the liability that arises from a personal injury.

Home Business Endorsement

Many people operate a business from their home. The standard policy has a limit of \$2,500 for business property and legal liability for the business is specifically excluded. The **home business endorsement** increases the coverage for property damage to the limits of Coverage C of the homeowners policy, which is 50% of the coverage for the main residence, and includes coverage for accounts receivable, records, and lost income and extra expenses when the business must be suspended because of a covered loss. Coverage for business property located outside of the home is increased from \$500 to \$5,000.

The liability coverage includes bodily injury, property damage, and personal injury. Note, however, that it does include professional liability. Thus, if a lawyer worked from a home office, he would still have to purchase malpractice insurance for malpractice claims.

Catastrophe Coverage

The 10 most expensive natural disasters in U.S. history all have occurred in the last decade. These catastrophes have resulted in insurance companies having to cover losses averaging \$10 billion each year since 1989, compared with just \$2 billion yearly from 1980 to 1988.

With the potential catastrophe payouts insurers face far exceeding their reserves, it's no surprise that major companies, are raising catastrophe-policy premiums and deductibles and excluding certain coverages. For instance, if one lives in a high probability area of wildfires in certain areas of California, fire coverage, under a normal homeowner's policy is not available other than by supplemental coverage. The insurance industry is saying to the homeowner, If you choose to live here, that's great, but you have to take on more of the risk.

Following are some catastrophe coverages available:

Earthquake Endorsement

The **earthquake endorsement** covers not only earthquakes, but volcanic eruptions, landslides or any other type of earth movement. A single earthquake is defined as all shocks occurring within a 72 hour period. The earthquake endorsement has a **percentage deductible** equal to 5% of the coverage for the main residence, with a minimum deductible of \$250. Higher deductibles can be chosen to reduce the cost of the premium. However, in states with a relatively high frequency of earthquakes, such as California, the percentage deductible can range from 10% to 25%.

Flood

A handful of private insurers provide flood insurance, but the largest flood catastrophe insurer is the National Flood Insurance Program (NFIP) administered through FEMA.

Most homeowners in a moderate-to-low risk area are eligible for coverage at a preferred rate. Preferred Risk Policy premiums are the lowest premiums available through the National Flood Insurance Program (NFIP), offering building and contents coverage for one low price. If one does not qualify for a Preferred Risk Policy, a standard rated policy is still available. Even though flood insurance isn't federally required, nearly 25% of all NFIP flood claims occur in moderate-to-low risk areas.

For a high-risk area, a standard rated policy is typically the only option. It offers *separate* building and contents coverage. The Dwelling Form provides insurance for buildings with one to four units, including single-family condominium units and townhouses. The General Property Form provides insurance for other- residential and commercial buildings. Both forms provide flood insurance on contents, if this optional coverage is purchased.

Flood insurance premiums are calculated based on factors such as:

- Year of building construction
- Building occupancy
- Number of floors
- The location of its contents
- Its flood risk (i.e. its flood zone)
- The location of the lowest floor in relation to the elevation requirement on the flood map (in newer buildings only)
- The deductible chosen and the amount of building and contents coverage

If a home is in a high-risk flood area and the homeowner obtained a mortgage through a federally regulated or insured lender, he is required to purchase a flood insurance policy.

Hurricane / Tornado Coverage

Normally, a basic homeowner policy may already have this coverage under **wind damage and wind-driven rain**, but hurricane coverage per se is being excluded by an increasing number of insurance companies.

The cost of comprehensive hurricane coverage can vary wildly, from as little as \$300 for a modest house in a low-risk area to upwards of \$20,000 for a luxury home in a high-risk zone. On top of the premium, policies issued in states that are most susceptible to storms can come with hurricane deductibles, which typically range from 1% to 5% of the insured value of a home. A standard deductible, say \$500, would apply to claims that aren't hurricane-related.

Hurricane deductibles usually kick in when damage results from a named storm. That means if a house is insured for \$200,000, and it's damaged in a hurricane, then the hurricane deductible will range between \$2,000 (1% of insured value) and \$10,000 (5%). Some states allow homeowners to choose the hurricane deductible—the higher the deductible, the lower the premium—while others set deductible levels

One common misconception about hurricane / tornado insurance is that it includes flood insurance. The two are very different insurance entities and a homeowner may need to purchase both insurances to become fully protected. Hurricane insurance is often limited to wind damages and does not include flooding even when the obvious cause is the hurricane.

Mold Remediation

As a general rule, mold and other problems caused due to lack of maintenance or wear and tear are not covered under a homeowners policy. The resulting mold from floods, storms and hurricanes is yet another uncovered event for most policies. Chances are, however, for an additional \$200-\$300 a year, one can obtain about \$25,000 of "mold remediation coverage." That's generally the minimum amount of coverage needed if mold is an issue.

Landslide

Soil expansion, subsidence and landslides affect a lot of homes every year yet they are events typically excluded from homeowners' policies. Properties might be covered where the subsidence or landslide caused a large boulder to roll down and damage a property. Otherwise, this coverage is rare and hard to find.

Types of Replacement Cost Coverage

REPLACEMENT COST COVERAGE is intended to provide for the cost to repair or replace the damaged or destroyed dwelling, ***without a deduction for physical depreciation***. Many policies pay only the dwelling's actual cash value until the insured has actually begun or completed repairs or reconstruction on the dwelling. Coverage only pays for replacement costs up to the limits specified in the policy.

EXTENDED REPLACEMENT COST COVERAGE is intended to provide for the cost to repair or replace the damaged or destroyed dwelling without a deduction for physical depreciation. Many policies pay only the dwelling's actual cash value until the insured has actually begun or completed repairs or reconstruction on the dwelling. Extended Replacement Cost provides ***additional coverage above the dwelling limits up to a stated percentage or specific dollar amount***.

GUARANTEED REPLACEMENT COST COVERAGE covers the full cost to repair or replace the damaged or destroyed dwelling for a covered peril regardless of the dwelling limits shown on the policy declarations page.

Replacement Cost Exclusions

The biggest exclusion possible in a replacement cost policy is underinsurance. An improper valuation could leave a family with less than needed to rebuild or replace their home. Other than that, replacement cost coverage under many policies may limit or not include the cost of removing the debris of the original building and demolishing whatever is left of it. This can be very expensive and time-consuming especially if any environmental issues exist such as lead, asbestos, chemicals, etc.

Replacement cost coverage may also ***not include***:

- An allowance for architectural or engineering fees.
- Permits that may be required
- Additional costs for tenant improvements, offices, additional wiring, air conditioning, etc
- General Contractor's overhead and profit.
- Financing costs such as interest and fees.
- Mortgage payments while the home is being repaired.

There may have been a change in building codes that do not allow the building to be rebuilt the way it was.

In the event of a total loss of an insured structure, no California policy may contain a provision that limits or denies payment of the replacement cost in the event the insured decides to ***rebuild or replace the property at a location other than the insured premises***. However, the measure of indemnity shall be based upon the replacement cost of the insured property and shall not be based upon the cost to repair, rebuild, or replace at a location other than the insured premises. In essence, the cost to rebuild at another location may be significantly more. The added costs would not be covered.

Building Ordinance

Ordinance and Law coverage, is an important option that covers additional costs to repair or replace a dwelling to comply with the building codes and zoning laws in effect at the time of loss or rebuilding. These costs are otherwise excluded by most policies. Meeting current building code requirements can add significant costs to rebuilding a home.

Appurtenant Structures

Structures on your property that are not attached to the house are considered ***other structures***, and are usually covered for an amount of up to 10% of the dwelling coverage on the policy. If that amount is insufficient, one can increase Other Structures Coverage to cover things like in-ground pools, workshops, storage buildings, garages, etc. Above-ground pools are considered personal property, and not an Other Structure.

Extended or Guaranteed Replacement Cost

Guaranteed replacement cost coverage pays for the full cost of replacing or repairing a damaged or destroyed home, even if it is above the policy limit.

Extended replacement cost coverage pays a certain amount above the policy limit to replace a damaged home, generally 120 or 125 percent. It is similar to a guaranteed replacement cost policy, which has no percentage limits. Most homeowner policy limits track inflation in building costs. Guaranteed and extended replacement cost policies are designed to protect the policyholder after a major disaster when the high demand for building contractors and materials can push up the normal cost of reconstruction.

Full Risk Misuse

Agents need to know that it is considered a misuse to rely on replacement cost to insure a client's full risk. The exclusions cited above are evidence that not everything is covered in a replacement cost endorsement.

Homeowners Insurance Valuation



SECTION VI: BASIC FIRE POLICY

Property Form

All fire policies in California shall be on the standard form, and, except as provided by this article shall not contain additions thereto. No part of the standard form shall be omitted there from except that any policy providing coverage against the peril of fire only, or in combination with coverage against other perils, need not comply

with the provisions of the standard form of fire insurance policy; provided, that coverage with respect to the peril of fire, when viewed in its entirety, is substantially equivalent to or more favorable to the insured than that contained in such standard form fire insurance policy. (CIC 2070)

The insurer may add to the standard form, in red ink, any provisions required or permitted in its policies by the State or country of its organization, respecting limitation of liability of the insurer, its shareholders or members. Clauses may also be added to the standard form covering subject matter and risks not otherwise covered.

Actual Cash Value v. Replacement Cost

Under a standard fire policy, the measure of the ***actual cash value recovery***, in whole or partial settlement of the claim, shall be determined as follows:

(1) In case of total loss to the structure, the policy limit or the fair market value of the structure, whichever is less.

(2) In case of a partial loss to the structure, or loss to its contents, the amount it would cost the insured to repair, rebuild, or replace the thing lost or injured less a fair and reasonable deduction for physical depreciation based upon its condition at the time of the injury or the policy limit, whichever is less. In case of a partial loss to the structure, a deduction for physical depreciation shall apply only to components of a structure that are normally subject to repair and replacement during the useful life of that structure. (CIC 2051)

Under an open policy that requires payment of the ***replacement cost*** for a loss, the measure of indemnity is the amount that it would cost the insured to repair, rebuild, or replace the thing lost or injured, without a deduction for physical depreciation, or the policy limit, whichever is less. If the policy requires the insured to repair, rebuild, or replace the damaged property in order to collect the full replacement cost, the insurer shall pay the actual cash value of the damaged property, as defined in Section 2051, until the damaged property is repaired, rebuilt, or replaced. Once the property is repaired, rebuilt, or replaced, the insurer shall pay the difference between the actual cash value payment made and the full replacement cost reasonably paid to replace the damaged property, up to the limits stated in the policy.

Insureds shall have a minimum of 12 months from the date that the first payment toward the actual cash value is made to collect the full replacement cost of the loss, subject to the policy limit. Additional extensions of six months shall be provided to policyholders for good cause.

In the event of a total loss of the insured structure, no policy issued or delivered in this state may contain a provision that limits or denies payment of the replacement cost in the event the insured decides to rebuild or replace the property at a location other than the insured premises. However, the measure of indemnity shall be based upon the replacement cost of the insured property and shall not be based upon the cost to repair, rebuild, or replace at a location other than the insured premises.

Exclusions and Extensions of Coverage

The basic fire policies are not 100% complete, they require additional forms and endorsements to be added in order to cover broader coverage for other direct and indirect risks. Homeowners policy with additional coverage such as personal liability or an endorsement for earthquake loss. Some perils such as flood may require a completely separate policy to be issued.

A standard fire policy usually addresses the coverage for buildings including the foundations. Landlords often insure the building structure with Standard Fire coverage, because the structure rented is insured but, not personal property of a renter. A Standard Fire Policy has four sections. Most policy holders insuring property will notice that each policy for insurance is typically broken down to the same basic format:

- **Part 1. Policy Declarations:** Offer a full description and location of property, the insured amount of the property, and the name of insured.
- **Part 2. Policy Agreements:** Establishes the premium amount, and outlines the responsibilities for the insured policy holder. Typically the actions insureds need to take when a loss occurs are spelled out and information about claim reporting is included.
- **Part 3. Policy Conditions:** This section of an insurance policy describes the things or issues that will suspend or restricts the insurance coverage. It may include language that holds the policy holder or insured responsible for reporting an increase in a hazard to the insurance company for example. Or outline the requirements of an insured to mitigate losses in the event of a loss caused by a named peril.
- **Part 4. Policy Exclusions:** This section of a policy usually outlines the perils that will not be covered under the policy. For example broken pipes may be covered but natural flood will be excluded.

The standard fire policy forms are usually added to in order to create a package policy such as homeowners. The Standard form may have some added specifically named perils. Endorsements outline a risk or define a peril and are generally added to the standard form. The standard policy will cover specific named-perils that will be spelled out in the policy. Some examples of standard insurance policies for named perils might include specific named risks such as:

- Fire.
- Explosion and or Implosion, however, most policies have an exclusion for explosion/implosion of boilers, economizers and other vessels, machinery or apparatus that generates steam.
- A direct strike of lightning.

Some standard policies will cover several named perils others may only cover one, such as a flood insurance policy.

Homeowners Insurance Valuation



SECTION VII: TYPES OF BUILDING CONSTRUCTION

According to the International Building Code, there are five major types of residential construction. They are listed below based on fire rating. Most homes in California today fall in the Type V category, that being wood frame.

TYPE I (Fire Resistive) - This **concrete and steel structure**, called fire resistive when first built at the turn of the century, is supposed to confine a fire by its construction. This type of construction in which the building elements are of noncombustible materials such as concrete and steel. The roof is also of noncombustible material such as concrete or steel .

TYPE II (Non-Combustible) - This type building has steel or **concrete walls, floors and structural framework** similar to a type I construction however, the **roof covering material is combustible**. The roof covering of a type II building can be a layer of asphalt water proofing, with a combustible felt paper covering. Another layer of asphalt may be mopped over the felt paper.

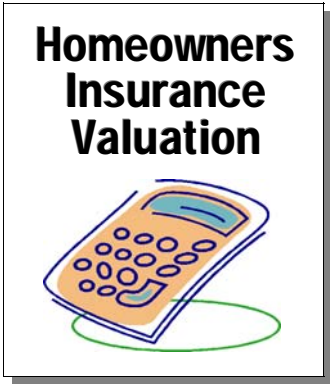
TYPE III (Ordinary) - This type of constructed building is also called a **brick and joist structure** by some. It has masonry bearing walls but the floors, structural framework and roof are made of wood or other combustible material. For example; a concrete block building with wood roof and floor trusses.

TYPE IV (Heavy Timber) - These buildings have **masonry walls** like Type III buildings but the **interior wood consists of heavy timbers**. In a heavy-timber building a wood column cannot be less than eight inches thick in any dimension and a wood girder cannot be less than six inches thick. The floor and roof are plank board. One difference between a heavy timber type IV building and type III construction is that a heavy-timber type IV building does not have plaster walls and ceilings covering the interior wood framework.

TYPE V (Combustible) - Wood-frame construction is the most combustible of the five building types. The interior framing and exterior walls may be wood. A wood-frame building is the only one of the five types of construction that has combustible exterior walls. This is the typical single-family home construction method. These buildings are built with 2x4 or 2x6 studs and load bearing walls, wood floor trusses or wood floor joist and wood roof framing.

Protected "A" means that all structural members of a building or structure has **additional fire rated coating or cover** by means of sheetrock, spray on, or other approved method. This additional fire rated coating or cover extends the fire resistance rating of structural members at least 1 hour.

Un-protected "B" means that all structural members of a building or structure has **NO additional fire rated coating or cover**.



SECTION VIII: METHODOLOGY OF DETERMINING VALUE

To comply with AB2022 training requirements, agents have several options to determine replacement cost values for applicants or insureds. However you determine value, keep in mind your responsibilities:

- Agents who provide the estimate of replacement cost must give the insured a copy at the time the policy limit is set and maintain records of this estimate for the entire term of the insurance policy PLUS five years thereafter. Any changes or updates to the replacement cost estimate must be provided to the applicant or insured within 60 days from the time it is generated. If an estimate was made but a policy never issued, estimate records must be kept for three years. (CCR 2695.182)
- Replacement cost estimates **MUST NOT** include a cost associated with “demand surge” . . . where the construction costs can dramatically increase after a major catastrophe. Agents should disclose to potential insureds that this cost has not been and legally cannot be taken into account in the estimate of replacement cost. (CCR 2695.183). Agents can, however, apprise customers that additional coverage may be obtained to protect for this contingency.
- Licensees who provide estimates of replacement cost or rely on estimates of others in regard to a recommended homeowner insurance policy **MUST** be sure the estimate includes all expenses that would reasonable by incurred to rebuild the insured structure in its entirety, including, but not limited to (CCR 2695.183):

- Type of foundation
- Type of frame
- Roofing materials and type of roof
- Siding materials and type of siding
- Whether structure is on a slope
- Geographic location of property
- Number of stories
- Materials used in, and types of, interior features and finishes
- Cost of demolition and debris removal
- Architects plans
- Age of structure
- Higher costs associated with replacing a single home versus multiple dwellings

The replacement estimate **should not**:

- Be based on **resale value of the land** or the **outstanding balance of any loan**
- Include a **deduction for physical depreciation**

- An agent that provides an applicant or insured a copy of a replacement cost estimate that does not meet the above standards shall explain exactly what elements above it does not address.

- When an insurer requires an agent utilize a specific source or tool to create an estimate of replacement cost or construction costs the following must be followed:
 - ✓ The insurer shall prescribe procedures to be followed when they use the source or tool
 - ✓ The insurer will provide the agent training to properly use the tools or source
 - ✓ The insurer and not the agent will be responsible for any noncompliance

A Word on Estimates

The intent of any cost valuation program is to maintain a high level of accuracy, recognizing that costs are subject to change. A good system will use the following to accomplish this:

- Collect data on a regular basis.
- Collect wage rates . . . union and non-union.
- Follow thousands of line items of construction, including productivity rates and crew sizes to install each of them.
- Take into account regulations, debris removal stipulations and license fees for all municipalities.
- Study reconstruction/replacement cost data from past claims to more closely reflect the cost insurers pay when a loss occurs.
- Consider local cost concerns such as building code requirements, hillside foundation costs, architect fees, and variables for older structures.
- Conduct extensive quality control analyses to validate real cost activity from claim settlements, both partial and total.

Some of the following evaluators may do this, some do not. Keep in mind, however, that a software provider, appraiser, builder or contractor who provides an accurate estimate of what it might cost to rebuild the structure is basing their cost estimators on current codes. Building codes have the potential to change rapidly and not all jurisdictions apply the same rules of what constitutes major damage. Structures built more than three to five years ago, for example, are most likely deficient in some aspect of the applicable building code. Of course, Ordinance or Law Coverage is designed to financially address these deficiencies and can pay the additional costs and loss of income resulting from the application of **ANY** ordinance or law affecting the reconstruction of the covered structure.

Then too, another possible claim scenario involves multiple causes of loss where some perils are covered by the underlying property policy and some portion of the loss is excluded from the coverage. The best and most recent example is the combination of wind and flood damage. In combined-loss situations such as this, the Ordinance or Law Coverage will pay pro-rata based on the percentage of damaged caused by each peril. So, if the wind causes 40% of the damage and the flood the other 60%, the Ordinance or Law coverage will pay only 40% of the loss in all three coverage parts.

Lastly, with the time value of money and improvements in construction methods and materials, using old estimators and adjusting them to current values will not provide an accurate estimate.

Proprietary Valuation Tools

Whether you use long established companies like Marshal Swift, or newer companies like 360Value, there are many competent sources of proprietary valuation tools available to agents.

Cost estimates from these companies are determined by daily research on material and labor costs needed to rebuild a particular structure, down to the screws and nails (according to company brochures), and/or analysis of damage repair estimates for claims. Most are component-based property replacement estimates meaning they break results down to the integral parts of construction such as foundation, framing, appliance, trim, finishes and more.

Replacement costs can be estimated during quoting and underwriting, updated for renewals, and recalculated periodically. Estimates can be calculated through the web-based user interface or desktop reference books.

Nearly all localize costs down to zip code level.

Appraisals

The cost of using an appraiser to determine replacement cost coverage for an applicant or insured may be more costly than using an online service, however it is allowable as long as the appraiser uses the component approach illustrated above and in compliance with 2695.183.

Insurance Company Valuation Software

More likely than not, most agents will be using software or valuation systems made available by their main carriers. As stated above, when an insurer requires an agent utilize a specific source or tool to create an estimate of replacement cost or construction costs the following must be followed:

- ✓ The insurer shall prescribe procedures to be followed when they use the source or tool
- ✓ The insurer will provide the agent training to properly use the tools or source
- ✓ The insurer and not the agent will be responsible for any noncompliance

In addition, this software must use the component approach detailed in 2685.183 above.

Contractor / Expert Opinion

Local and knowledgeable contractors are great sources of replacement cost as they are ***in the trenches*** rebuilding and repairing houses on a daily basis. As good as they are, it is unlikely they will provide an agent detailed component bids on an ongoing basis for free or less than the cost of online software.

Cost Per Square Foot

For years, the insurance industry has relied on cost per square foot estimates to value the replacement cost of homes. It is determined by using known construction costs and dividing by the home's square footage. However, there are too many factors such as demolition, building codes, quality of construction and more that limit the cost per square foot estimate as a back-up or second opinion course. Further, using a cost per square foot does not comply with the component requirement that all replacement cost estimates must pass.

Insured's Opinion

When the law placed the responsibility of establishing a replacement value on the homeowner, his opinion was as good as any. However, this has changed with AB 2022. Most insureds do not have a realistic grasp on construction costs to reasonably estimate the cost to reconstruct an entire home. Further, they are more likely to confuse replacement cost with market value which, depending on current times, could be below the actual cost to replace the same home. An insured's opinion is just that . . . an opinion. It cannot be used by the agent to estimate replacement cost.

Custom Home Elements

Given the trend in the renovation of older homes and the popularity of upscale homes, replacement cost valuation methods need to adapt to special elements of custom home replacement in the event of a loss. This can mean replacement cost valuation of such things as:

- Full dimensional lumber, original wood flooring, lath and plaster walls and ceilings, heavy rafters and sheathing, stone foundations, extensive use of solid wood trim and doors, crown moldings, etc.
- Impacts of requiring updating to building codes, environmental issues, such as lead paint, asbestos and fire code upgrades which have to be remediated (particularly older homes).
- Demolition and debris removal costs.
- Higher average **skilled** labor costs in a rebuilding project.

These more accurate valuation estimates account for rebuilding an exact replica of the home, including original materials. Replacement cost contracts require this unless the insured is willing to accept commonly used materials (or if the insured doesn't know he has modified replacement cost on his policy).

Accurately generating replacement cost is an important step to take when closing on a house or reviewing homeowners coverage. It is particularly important to the owners of pre-1940 houses and custom homes.

Location and Construction Type

Homes built in housing tracts by merchant builders and homes built in suburban (but not remote) areas tend to cost less than custom homes built in well-developed metropolitan areas. Exclusive locations behind guarded gates and subject to association architectural rules require more planning and costs as well.

Construction costs are higher in some states than in others. Most valuation programs or systems account for this using an index that compares costs nationwide. This index considers all the major construction cost variables, including labor, material, equipment, climate, building codes, likely job conditions and markup. Many are sensitive down to a given zip code.

Homeowners Insurance Valuation



SECTION IX: LOSS MITIGATION

Loss of life, property, and resources due to California Wildland Urban Interface (WUI) land fires can be reduced if planners, developers, fire agencies, and homeowners work together to define, enforce, and maintain reasonable fire safety standards. Reducing or removing fire hazards in the WUI requires an assessment of potential risks, programs and standards for fire safety, and fuel management. These three sets of activities may be conducted at national, state, local or individual levels.

Risk and Hazards

Despite the availability of programs and options for reducing hazards, there are many barriers to fire mitigation. Even in areas prone to wildfires, many residents prefer to wait for the event to occur and then respond, rather than take precautions to minimize risk. WUI residents may even deny that a wildfire is likely to occur or discount its potential impact. Some people feel that WUI fires are inherently uncontrollable and the resulting damage is essentially random, resulting in little support for investments in firefighting infrastructure and steps to safeguard their properties. If a home is destroyed, insurance spreads the costs among a large group of people, encouraging continued residence in high-risk areas. Several insurance companies are beginning to withdraw coverage if high risk factors are not corrected. It is unfortunate that actually experiencing a wildfire may be the only modifier of risky behavior.

Some of the more widely know risks include:

Topography

Hills, brush, wetlands, rocks and more inhibit the ability of fire responders and rescue. These are the same issues that make properties difficult to maintain and escalate replacement costs.

Fuel Management

Fuel management modifies the hazard posed by vegetation and structures by:

- Reducing the available fuel (dead and living) in broad areas using prescribed fire or other methods .
- Creating defensible space by converting the vegetation to a less-flammable type and distribution that is less hazardous

Fuel reduction techniques are used to decrease hazardous fuels (i.e., flammable vegetation). Fuel management is especially critical in forest ecosystems located adjacent to residential areas because of the increased risks to people and property, enhanced resource values, and the increased difficulty of fire control and suppression. Fuel modifications may be broadcast across large areas, applied to small selected lots, or designed as strips of various widths to impede fire spread into a developed area such as:

- **Prescribed burning** is the careful application of fire to achieve land management goals. Fire is a natural component of most ecosystems that encourages the growth of some

native plants and enhances wildlife habitat in addition to reducing accumulated fuels. Prescribed fire can usually be completed at comparatively low-cost. Disadvantages to using prescribed fire include smoke management and public health issues, limitations on the number of acres that can feasibly be burned each year, the necessity for repeat treatments as vegetation grows back, and the risk of fire escapes. Smoke problems from a prescribed burn in the wildland urban interface are minimized by burning during favorable, daytime, smoke dispersal conditions.

- **Herbicides** have longer lasting effects on the vegetation than other methods, and they may be the only treatment for invasive exotic species. Herbicides do not modify the soil structure, nor do they enhance the regeneration of most fire dependent organisms unless chemical treatments are combined with prescribed burning. Herbicides do not reduce dead biomass accumulations; in fact, they temporarily increase dead fuels and the potential fire danger for one to three years. Herbicides have comparatively moderate costs and generally low public acceptance.
- **Mechanical fuel treatments** such as mowing, disking, roller chopping, and hand removal are generally risk free, have a high level of public acceptance, and are the only methods that modify or disturb soil, if that is needed. Disadvantages to using mechanical treatments include the necessity of repeat treatments, moderate to high costs, limitations on wet sites and steep slopes, follow-up burning is often required, and personal safety concerns associated with the use of hand tools such as machetes and chainsaws.

Defensible Space

Defensible space is the area of modified vegetation between **wildland fuels and structures** that can reduce the intensity of fires close to structures, provide firefighters the chance to stop a wildfire quickly and efficiently, and reduce a structure fire when firefighting personnel and equipment are not immediately available to help. Homeowners need to take proactive, preventative actions to reduce the wildfire risk to their property by modifying structures and creating a defensible space. Materials for roofing, siding, decks, and vents, plant selection, landscape design, and maintenance are the most critical elements for a fire-safe home. Defensible space can be a 30-foot clearing with tree islands or a greenbelt surrounding a planned community. A study in Florida showed that structures with less than 10 feet of brush clearance were 60% more likely to burn during a wildfire than homes with at least 30 feet of cleared brush. Homes with non-flammable roof coverings (asphalt shingles, metal, tile) that are surrounded by 30 to 60 feet of modified vegetation are over 85% more likely to survive a wildfire than homes with flammable roofs and no vegetative clearance. Defensible space can include firewise plants and native species that are low in flammability.

Firewise plants have a high moisture content in the leaves and branches, broad and thick leaves, open and loose branching patterns, deciduousness, low amounts of dead materials, and low amounts of resin. Some less flammable plants are dogwood, viburnum, redbud, sycamore, magnolia, oaks, red maple, wild azalea, sweetgum, winged elm, black cherry, persimmon, wild plum, and ferns. Fire-prone plants to avoid near structures are junipers, young pine trees, cedars, palmetto, wax myrtle, rhododendron, mountain laurel, tall ornamental grasses and yaupon holly. Landscaping tips for mitigating fire hazard and creating defensible space include:

- Space plants carefully - use shrub islands or patches of perennials rather than continuous beds or plantings.
- Prune plants regularly - thin trees so branches do not touch each other.
- Remove all ladder fuels - trim lower branches up to 10 feet on tall trees, remove vines from trees and keep shrubbery away from pine trees so a fire in surface fuels cannot climb up these ladder fuels to the treetops.

- Remove dead leaves and other litter from around trees, shrubs and vines, and from a 3-5 foot strip next to the structure.
- Provide the landscape with sufficient moisture when fires are imminent

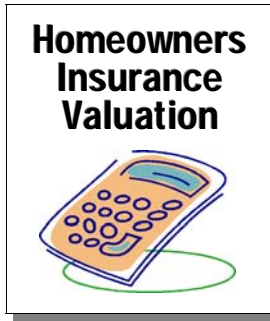
Fire resistant construction tips

Structural modifications to improve fire resistance include:

- Metal, asphalt shingle, or tile roof
- Balconies and decks constructed of materials approved for 1-hour fire resistance in accordance with the American Society of Testing Materials Standard E 119
- Attic vents, soffit vents, foundation openings and other such openings covered with 1/8" mesh noncombustible corrosion-resistant metal screen
- Street address clearly posted on the main street
- Dual or triple pane thermal or tempered glass windows and glass doors, or fireproof shutters for windows
- Sprinkler systems installed on roof or around eaves.

Multiple Tool Approach

In any fire mitigation program it is important to mention that there is ***more than one tool in the tool box***. A complete fire protection plan recognizes all of the elements above to reduce fire hazards in high risk areas. Where available, replacement cost coverage in such areas is very desirable and should include options for Ordinance and law and additional living expenses (ALE). In very remote areas where the time to reconstruct could linger beyond normal, it might be wise for applicants or insureds to extend ALE beyond 12 months.



Appendix

CALIFORNIA DEPARTMENT OF INSURANCE
RATE REGULATION BRANCH
45 FREMONT STREET, 23rd FLOOR
SAN FRANCISCO, CA 94105



www.insurance.ca.gov

NOTICE

Recent Changes in the Law Affect Insurers Writing Residential Property Insurance in California

TO: ALL INSURERS WRITING RESIDENTIAL PROPERTY INSURANCE IN THE STATE OF CALIFORNIA AND INTERESTED PARTIES

DATE: November 30, 2010

This Notice is to advise all insurers writing residential property coverage insurance in the State of California of recent changes in California law which will require insurers to revise certain documents provided to policyholders.

Governor Schwarzenegger recently signed AB 2022. This bill, effective July 1, 2011, revises the mandatory language of the California Residential Property Insurance Disclosure to simplify and rearrange the descriptions of types of coverage and, most importantly, to include additional information concerning insurance limits. The bill also revises and simplifies the California Residential Property Insurance Bill of Rights.

Please reference <http://www.leginfo.ca.gov> for information about the legislation and reference California Insurance Code Sections 10101 - 10107.

The law requires that the Disclosure and the Bill of Rights be sent out with every newly-issued residential property insurance policy and on an every-other -year basis upon renewal. This provision is unchanged.

Attached are the revised versions of these documents.

Any questions regarding this Notice can be addressed to:

Betty Tackett
Senior Rate Analyst
California Department of Insurance
45 Fremont Street, 23rd Floor
San Francisco, CA 94105
tackettb@insurance.ca.gov

NOTICE TO CONSUMERS — CALIFORNIA RESIDENTIAL INSURANCE DISCLOSURE

This disclosure is required by Section 10102 of the California Insurance Code. This form provides general information related to residential property insurance and is not part of your residential property insurance policy. Only the specific provisions of your policy will determine whether a particular loss is covered and the amount payable. The information provided does not preempt existing California law.

PRIMARY FORMS OF RESIDENTIAL DWELLING COVERAGE

You have purchased the coverage(s) checked below. NOTE: Actual Cash Value Coverage is the most limited level of coverage listed. Guaranteed Replacement Cost is the broadest level of coverage.

___ **ACTUAL CASH VALUE COVERAGE** pays the costs to repair the damaged dwelling minus a deduction for physical depreciation. If the dwelling is completely destroyed, this coverage pays the fair market value of the dwelling at time of loss. In either case, coverage only pays for costs up to the limits specified in your policy.

___ **REPLACEMENT COST COVERAGE** is intended to provide for the cost to repair or replace the damaged or destroyed dwelling, without a deduction for physical depreciation. Many policies pay only the dwelling's actual cash value until the insured has actually begun or completed repairs or reconstruction on the dwelling. Coverage only pays for replacement costs up to the limits specified in your policy.

___ **EXTENDED REPLACEMENT COST COVERAGE** is intended to provide for the cost to repair or replace the damaged or destroyed dwelling without a deduction for physical depreciation. Many policies pay only the dwelling's actual cash value until the insured has actually begun or completed repairs or reconstruction on the dwelling. Extended Replacement Cost provides additional coverage above the dwelling limits up to a stated percentage or specific dollar amount. See your policy for the additional coverage that applies.

___ **GUARANTEED REPLACEMENT COST COVERAGE** covers the full cost to repair or replace the damaged or destroyed dwelling for a covered peril regardless of the dwelling limits shown on the policy declarations page.

___ **BUILDING CODE UPGRADE COVERAGE**, also called Ordinance and Law coverage, is an important option that covers additional costs to repair or replace a dwelling to comply with the building codes and zoning laws in effect at the time of loss or rebuilding. These costs may otherwise be excluded by your policy. Meeting current building code requirements can add significant costs to rebuilding your home. Refer to your policy or endorsement for the specific coverage provided and coverage limits that apply.

READ YOUR POLICY AND POLICY DECLARATIONS PAGE CAREFULLY: The policy declarations page shows the specific coverage limits you have purchased for your dwelling, personal property, separate structures such as detached garages, and additional living expenses. The actual policy and endorsements provide the details on extensions of coverage, limitations of coverage, and coverage conditions and exclusions. The amount of any claim payment made to you will be reduced by any applicable deductibles shown on your policy declarations page. It is important to take the time to consider whether the limits and limitations of your policy meet your needs. Contact your agent, broker, or insurance company if you have questions about what is covered or if you want to discuss your coverage options.

INFORMATION YOU SHOULD KNOW ABOUT RESIDENTIAL DWELLING INSURANCE

AVOID BEING UNDERINSURED: Insuring your home for less than its replacement cost may result in your having to pay thousands of dollars out of your own pocket to rebuild your home if it is completely destroyed. Contact your agent, broker, or insurance company immediately if you believe your policy limits may be inadequate.

THE RESIDENTIAL DWELLING COVERAGE LIMIT: The coverage limit on the dwelling structure should be high enough so you can rebuild your home if it is completely destroyed. Please note:

- The cost to rebuild your home is almost always different from the market value.
- Dwelling coverage limits do not cover the value of your land.
- The estimate to rebuild your home should be based on construction costs in your area and should be adjusted to account for the features of your home. These features include but are not limited to the square footage, type of foundation, number of stories, and the quality of the materials used for items such as flooring, countertops, windows, cabinetry, lighting and plumbing.
- The cost to rebuild your home should be adjusted each year to account for inflation.
- Coverage limits for contents, separate structures, additional living expenses and debris removal are usually based on a percentage of the limit for the dwelling. If your dwelling limit is too low, these coverage limits may also be too low.

You are encouraged to obtain a current estimate of the cost to rebuild your home from your insurance agent, broker, or insurance company or an independent appraisal from a local contractor, architect, or real estate appraiser. If you do obtain an estimate of replacement value, and wish to change your policy limits, contact your insurance company. While not a guarantee, a current estimate can help protect you against being underinsured.

DEMAND SURGE: After a widespread disaster, the cost of construction can increase dramatically as a result of the unusually high demand for contractors, building supplies and construction labor. This effect is known as demand surge. Demand surge can increase the cost of rebuilding your home. Consider increasing your coverage limits or purchasing Extended Replacement Cost coverage to prepare for this possibility.

CHANGES TO PROPERTY: Changes to your property may increase its replacement cost. These changes may include the building of additions, customizing your kitchen or bathrooms, or otherwise remodeling your home. Failure to advise your insurance company of any significant changes to your property may result in your home being underinsured.

EXCLUSIONS: Not all causes of damage are covered by common homeowners or residential fire policies. You need to read your policy to see what causes of loss or perils are not covered. Coverage for landslide is typically excluded. Some excluded perils such as earthquake or flood can be purchased as an endorsement to your policy or as a separate policy. Contact your agent, broker, or insurance company if you have a concern about any of the exclusions in your policy.

CONTENTS (PERSONAL PROPERTY) COVERAGE DISCLOSURE:

This disclosure form does not explain the types of contents coverage provided by your policy for items such as your furniture or clothing. Contents may be covered on either an actual cash value or replacement cost basis depending on the contract. Almost all policies include specific dollar limitations on certain property that is particularly valuable such as jewelry, art, or silverware. Contact your agent, broker or insurance company if you have any questions about your contents coverage. You should create a list of all personal property in and around your home. Pictures and video recordings also help you document your property. The list, photos, and video should be stored away from your home.

CONSUMER ASSISTANCE

If you have any concerns or questions, contact your agent, broker, or insurance company. You are also encouraged to contact the California Department of Insurance consumer information line at (800) 927-HELP (4357) or at www.insurance.ca.gov for free insurance assistance.

California Residential Property Insurance Bill of Rights

A consumer is entitled to receive information regarding homeowner's insurance. The following is a limited overview of information that your insurance company can provide:

- The insurance company's customer service telephone number for underwriting, rating, and claims inquiries.
- A written explanation for any cancellation or nonrenewal of your policy.
- A copy of the insurance policy.
- An explanation of how your policy limits were established.
- In the event of a claim, an itemized, written scope of loss report prepared by the insurer or its adjuster within a reasonable time period.
- In the event of a claim, a copy of the Unfair Practices Act and, if requested, a copy of the Fair Claims Settlement Practices Regulations.
- In the event of a claim, notification of a consumer's rights with respect to the appraisal process for resolving claims disputes.
- An offer of coverage and premium quote for earthquake coverage, if eligible.

A consumer is also entitled to select a licensed contractor or vendor to repair, replace, or rebuild damaged property covered by the insurance policy.

The information provided herein is not all inclusive and does not negate or preempt existing California law. If you have any concerns or questions, contact your agent, broker, insurance company, or the California Department of Insurance consumer information line at (800) 927-HELP (4357) or at www.insurance.ca.gov for free insurance assistance.

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