

Insuring your building to the proper value

You work hard to maintain your building, which is why it's so important to ensure you're protected in the unlikely case of a full or partial property loss.

Determining adequate property limits for insurance purposes can be tricky as costs vary depending on a number of factors, such as the age of your building, choice of construction materials, quality of construction and geographic location.

Total loss considerations

If you experience a total loss, you don't want to be in the position of having inadequate funds to reconstruct the building. You need to consider the costs of debris removal (this could include toxic elements such as asbestos, lead or oils), site preparation, and additions required under current local bylaws/ building code changes.

Thus the cost to rebuild is going to be higher than expected.

Partial loss considerations

Most property policies include a co-insurance clause which may reduce the amount payable if the property is underinsured in cases of partial loss.

A co-insurance clause establishes how the insurance company and the customer will share any costs incurred after the deductible is paid, based on a specific formula.

This is why it's in the best interest of all parties involved to ensure properties are valued accurately and reviewed annually.

Tips for insuring to value

There is no single way to guarantee you'll be insured to full value however, there are several key guidelines to help ensure you're as close as possible:

- ✓ Maintain a record of accurate building construction information such as area, number of storeys, construction type and materials used.
- ✓ Commission a detailed appraisal of your building from an appraiser accredited with the Appraisal Institute of Canada and holding an "AAIC" designation.

- ✓ Obtain the actual as-built cost from the architect/ builder for new buildings.
- ✓ Discuss adjusting values based on the annual construction inflation rates (not the consumer price index) with your broker.
- ✓ Update your appraisal every year with a full re-appraisal every five years or whenever you make major upgrades or modifications

Heritage building considerations

If you own a *heritage building* that is a total loss, there's usually no legal requirement to replicate the original structure if you rebuild. However you should review your agreement and bylaws carefully to ensure that this is the case.



Consider too that there may be strong support from the public to rebuild, and it may be viewed as good corporate citizenship on your part to rebuild, replicating the look of the original building. As such, you need to take into account the extra costs to do so.

If a heritage building is damaged but incurs only a partial loss, the cost of repair is significantly higher than similar repairs to a modern building.

To avoid co-insurance issues, it's important to be adequately insured. Obtaining an accurate building replacement cost is important and requires the skills of a knowledgeable appraiser who understands the nuances of heritage construction and reconstruction.

A skilled appraiser is able to establish the costs to *replace exactly* or reproduce the look of items such as:

- ✓ handmade bricks
- ✓ ornate hand cut stone work
- ✓ elaborate fittings in plaster, stone, cast iron, or wood
- ✓ antique lighting fixtures
- ✓ antique flooring
- ✓ antique or stained glass windows
- ✓ slate roofing

Unusual construction

Building design is a rapidly evolving process with new technologies and materials being introduced by architects and designers in many new and creative ways.

Some new technologies may be difficult to reproduce or replace over time which is why it's important to ensure you have a good baseline cost estimate for the structure of your building.

Your best source for this information is usually the architect or builder as they should both have detailed cost estimates and the actual final costs incurred to construct the building.

Don't forget to consider:

- green roofs
- solar electric and or solar hot water systems
- ground source heat pump systems
- building automation
- LEED rated buildings

The role you play

It's important to remember the role you play to ensure you are fully protected by your insurance policy.

Insuring your property to the correct value and keeping that value current over time, is critical and can help you avoid paying out of pocket to rebuild or replace your building.

Don't be caught off guard – review your policy today.

Additional resources

Appraisal Institute of Canada
<http://www.aicanada.ca/>

Ontario Insurance and Heritage Properties
http://www.mtc.gov.on.ca/en/publications/Heritage_Insurance%20.pdf

Heritage BC
<http://www.heritagebc.ca/home/>

For further information on this topic, please contact your independent insurance broker.

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