

TIP SHEET

**Risk Management Ideas From
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Tips On Insuring Buildings To Value

It's important to you and your insurance company that you insure your buildings for 100% of value! This isn't as easy as it sounds. Here are some tips to help you determine the value of your building:

- 1) Don't rely on your existing policy to provide adequate limit information.
- 2) Disregard the market value of a building. Market value is seldom relevant to insurance matters.
- 3) Insure the building on a replacement cost basis unless it's very old (e.g. 50 years or more). This option provides the most complete coverage and eliminates the problem of estimating depreciation. (With old buildings, it's usually not practical – from a limit and premium standpoint – to insure on a replacement cost basis, nor will most insurance companies permit it – for moral hazard reasons).
- 4) If, in case of total loss, the building would be replaced with less expensive construction, insure it on a *functional building valuation* basis; i.e. insure for the value of the type of building that would replace it. This relieves you of insuring for an unnecessary high value or having to estimate depreciation.
- 5) Always provide your agent with the accurate square footage, construction type and construction year information. Use this information to calculate building replacement cost or actual cash value (replacement cost less depreciation). (*Note: "depreciation" is reduction in value from physical deterioration or obsolescence – it has nothing to do with the accounting definition of "depreciation".*)
- 6) Know the definition of "building" in your policy. For example, many policies include as "building" such items as outdoor fixtures, personal property used to service the building, certain types of appliances, additions under construction, etc. You should include the values of these in your building limit.
- 7) If local building codes require, in the event of loss, features (e.g. accommodations for the disabled, sprinkler systems, etc.) that don't currently exist in the building, you need to consider adding ordinance or law coverage. This covers the value of the remaining portion of the building (which may have to be demolished), demolition costs and the increased cost of construction with the new features.

Source: Central Insurance Company #030103