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Consider Your Options

by Dean B. Harclerode, SPPA

Policyholders should consider alternative options rather than traditional methods of financial recovery after suffering a property loss.

For example, a policyholder purchased three abandoned inner city buildings which were adjacent to each other and only separated by a few feet. The purchase price was $250,000 for the buildings. The policyholder purchased Actual Cash Value Property Insurance in the amount of $250,000 for the newly purchased buildings. Several weeks after making the purchase, the insurance broker advised the policyholder that it should purchase Replacement Cost Coverage of $2,500,000 rather than Actual Cash Value Insurance. The policyholder authorized the broker to proceed with increasing the insurance coverages. Only a few weeks after the conversation, all three buildings were destroyed in a fire.

After a thorough assessment of the damage to the building, all parties agreed that on a Replacement Cost basis, the damages exceeded the policy limits of $2,500,000.

Although the parties agreed that the property damage exceeded policy limits, that did not mean that the insurance company was immediately going to pay $2,500,000. An important fact which may be unknown to policyholders is that their "Replacement Cost Coverage" only applies if the property is repaired or replaced. This typically means that until the property is repaired or replaced, the insurance company's only obligation is to pay Actual Cash Value of the loss.

With the policyholder's consent, Alex Sill, an AKLA member, proposed to the insurance company a settlement of $1,000,000 to finalize the claim in its entirety. We reminded the insurance company that there was Replacement Cost Insurance coverage in force and that if the insurance company insisted on only compensating the policyholder for its original purchase price ($250,000), the policyholder may opt to replace the property. The insurance company refused to consider the compromise settlement and became entrenched in their position of $250,000 as being the Actual Cash Value of the property loss. The battle lines were drawn.

In an effort to review the insurance coverage positions and potential options available to the policyholders, the insurance company's position must be identified. First, the Alex Sill Co. clarified the insurance company's position that once the policyholder rebuilt at the same loss location the policyholder was entitled to recover the actual amount spent or the amount of the policy, whichever was less. The insurance company agreed with this position. Therefore, if the policyholder spent $1,000,000 on building a new structure(s) the insured would receive an additional $750,000. If the insured spent at least the $2,500,000 (policy limit), he would recover the entire withheld depreciation amount of $2,250,000.

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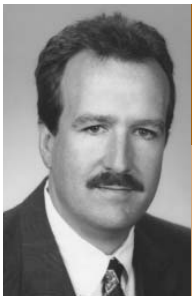

who's who

Dean B. Harclerode is a general adjuster for Alex N. Sill Adjustment Company in Cleveland, Ohio and has over 20 years experience in handling first party claims. Mr. Harclerode has handled claims up to $75,000,000 and is licensed in numerous jurisdictions. He is a veteran of numerous catastrophe losses (hurricane, tornadoes, hail storms) and was a former insurance company supervisor and adjuster.

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Next, Alex Sill approached the insurance company with the option of rebuilding at another site. After the insurance company reviewed this option, it agreed that this would be an option for the policyholder to pursue. Again, as long as the policyholder spent the $2,500,000 it would be entitled to recover the withheld depreciation. It was certified that the new building would not need to be identical to the structure lost.

Then Alex Sill Co. inquired as to whether the policyholder could purchase several different buildings and thereby qualify for the withheld depreciation. After additional deliberation by the insurance company, it finally agreed that this was a viable option. Again, the replacement did not need to be exact, as long as the policyholder expended at least the $2,500,000 (after deduction for land value) the policyholder would be entitled to recover the withheld depreciation.

The policyholder now had many options to choose from. He could accept the actual cash value payment and walk away from the claim. He could challenge the actual cash value calculation proposed by the insurance company. He could rebuild at the loss location or at another location. He could purchase one or more existing buildings at other locations. The policyholder researched and considered all of these options and decided that it would be best to purchase four separate buildings. These were four separate real estate transactions at four different locations. Obviously, these four buildings would not be identical replacements of three abandoned buildings. From the total purchase price of these four buildings the land values were deducted. Since the net purchase price of all the buildings combined, exceeded the $2,500,000 in coverage, the insurance company agreed to pay the entire holdback of $2,250,000. The policyholder therefore, collected his entire policy limits of $2,500,000. In addition, the policyholder was now the owner of several million dollars worth of real estate.

The end result was a policyholder receiving the full amount of insurance coverage that it paid for. AKLA member, Alex N. Sill Company, assisted the policyholder through this ordeal and by thoroughly exploring the various possible options, a very desirable outcome was achieved. ■

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