

The Added Cost Of Complying With Local Building Laws - Are Your Adequately Insured?

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Corporations who suffer a property loss sometimes find that although they are adequately covered for their basic loss, they have another exposure they did not provide for: namely, the cost of complying with building laws or ordinances. Unfortunately, these expenses are not covered under standard property insurance policies, however, they can be covered by the proper endorsements.

Could This Happen To You?

ABC, Inc., a company in Northern Iowa sustained a large fire loss, resulting in the partial destruction of their two-story building. About the time the building owners were ready to commence repairs they were contacted by the American With Disabilities (ADA) agency. It was determined that major modifications would be needed to make the building comply with ADA requirements. In order to modify the building to ADA's specifications, \$400,000 would be needed. Also, it would take approximately two (2) additional months to repair the building because of these ADA costs, delaying the restoration of plant production. The total amount of the physical damages, including ADA costs, totaled \$850,000. The total loss of business income and extra expenses came to \$550,000 - of which \$175,000 was the result of the extended time needed to comply with ADA requirements. ABC expected this claim to be paid in full, subject to their policy deductible.

He Was Shocked To Learn That Part Of His Claim Would NOT Be Paid!!

When the adjuster first arrived he began a review of all property damage and business interruption costs. He quickly determined that the policy limit was adequate and that there were no coinsurance penalties that would apply. So far, so good.

Then the adjuster referred the controller to the following policy exclusions that were found in their property insurance policy:

"We will not pay for loss of damage caused directly or indirectly by any of the following:

Such loss of damage is excluded regardless of any other cause or event that contributes concurrently or in any sequence to the loss.

a. Ordinance or Law

The enforcement of any ordinance or law: (1) Regulating the construction, use or repair of any property; or (2) Requiring the tearing down of any property, included in the cost of removing its debris."

Once this exclusion was applied, the controller was shocked to learn that the adjuster would pay only \$450,000 for property damages and only \$375,000 for lost business income and expenses. **This accounted for only 60% of the total amount lost!!**

He Was Even More Upset To Learn That These Expenses Could Have Been Covered

How Can We Help

Understanding and properly insuring your law and ordinance exposures takes careful risk management analysis and guidance.

PDCM Insurance has the experience to help you identify these important exposures. With your help we can design the proper insurance policy that can be responsive to your needs.

As the Controller for ABC Company learned the hard way, at the time of loss your insurance policy is more than just a piece of paper. If not designed and monitored properly it can be a lot more costly than your insurance premium.

For more information on our services, or how we can help you exam the problem identified in our risk management survey, please contact:

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