

# ***Homeowners' Insurance Valuation: What Agents and Brokers Need to Know***

*Presented by*  
**Stone | Rosenblatt | Cha  
and Friends**

May 24, 2011  
CDI Approved Course # 261987

Copyright 2011 © Stone | Rosenblatt | Cha

1

## **Introduction**



Copyright 2011 © Stone | Rosenblatt | Cha

2

# Introduction



**No Politics**

Copyright 2011 © Stone | Rosenblatt | Cha

3

# Introduction



**No Propaganda**

Copyright 2011 © Stone | Rosenblatt | Cha

4

## The Catalysts for Concern: Underinsurance

- Insurance is often the only protection against catastrophic loss afforded to homeowners
- Insurance is also the primary protection for mortgagors
- Recent catastrophes

Copyright 2011 © Stone | Rosenblatt | Cha

5

## The Impact of Recent Catastrophes



*Ramona*  
(Oct 2007)

*Riverside*  
(Nov 2008)

*Santa Barbara*  
(Nov 2009)

Copyright 2011 © Stone | Rosenblatt | Cha

6

## The Impact of Recent Catastrophes (cont.)

### *The Rains of the Winters 2009-11*



Copyright 2011 © Stone | Rosenblatt | Cha

7

## AB 2022 Is *New Law*

### Cal. C. Regs. ("CCR")

- § 2695.180
- § 2695.181
- § 2695.182
- § 2695.183
- § 2188.65



Copyright 2011 © Stone | Rosenblatt | Cha

8

## AB 2022: Also Revises Existing Law



### Amended CCRs:

§ 2190.2

§ 2190.3

Copyright 2011 © Stone | Rosenblatt | Cha

9

## AB 2022 Changes

- Revision of Residential Property Disclosure Form
- Residential Property Insurance Bill of Rights
- Mandatory training for agents/brokers
- Understanding, enlightenment and documentation regarding replacement cost estimates

Copyright 2011 © Stone | Rosenblatt | Cha

10

## Responsibility of Agents and Insurers Before AB 2022

**The General Rule:**  
*Fitzpatrick v. Hayes*

Copyright 2011 © Stone | Rosenblatt | Cha

11

## Responsibility of Agents and Insurers Before AB 2022

**The Exceptions:**  
*Jones v. Grewe*  
*Free v. Republic*  
*Desai v. Farmers*  
*Everett v. State Farm*

Copyright 2011 © Stone | Rosenblatt | Cha

12

## Homeowners Policies v. Dwelling Policies

- Homeowners Policies (“HO”): Provides both property and liability coverage
- Dwelling Property Policies (“DP”): Monoline, component based

Copyright 2011 © Stone | Rosenblatt | Cha

13

## Who is Eligible for HO Insurance

- Only 1, 2, 3, or 4 family dwelling
- Owner occupied residence
- No more than two families per unit, or family + two boarders

Copyright 2011 © Stone | Rosenblatt | Cha

14

## Who is Eligible for HO Insurance

- Long term installment contracts okay
- Life estate arrangements okay
- Course of Construction okay, provided owner intends to occupy
  - But there are limits
- Separate apartments w/co-owners okay

Copyright 2011 © Stone | Rosenblatt | Cha

15

## Different HO Forms

- HO-2 Broad Form
  - Building/Personal Property for specified perils
- HO-3 Special Form
  - Building on open-perils basis
  - Personal Property on specified perils
- HO-5 Comprehensive
  - Building/Personal Property on open perils
- HO-8 Modified Coverage Form
  - B/PP for a more limited list of specified perils

Copyright 2011 © Stone | Rosenblatt | Cha

16

## Who is Eligible for Dwelling Coverage?

- *Primarily* for residential purposes
- Owner need not occupy
- Up to 5 roomers or boarders okay
- Four or fewer apartments
- Townhouses/row houses okay
- Course of Construction okay

Copyright 2011 © Stone | Rosenblatt | Cha

17

## Coverages Available Under Dwelling (“DP”) Insurance

- Coverage A – Dwelling
- Coverage B – Other Structures
- Coverage C – Personal Property
- Coverage D – Fair Rental Value

***Each Coverage Has Its Own Limit***

Copyright 2011 © Stone | Rosenblatt | Cha

18

## Three Potential Coverages Under the Dwelling Forms

- Fire (including lightening, internal explosion)
- Fire and Extended Coverage
- Fire EC and VMM

*Additional Premiums Will be Charged for these Coverages*

Copyright 2011 © Stone | Rosenblatt | Cha

19

## Differences among DP Forms

- Dwelling Property 1 – Basic Form
  - Covers building and personal property against fewer specified perils than the broad form
- Dwelling Property 2 –Broad Form
  - Like the HO broad form, covers building and personal property against a list of specified perils
- Dwelling Property 3 – Special Form
  - Like the HO special, covers building on open perils basis and covers personal property against a list of specified perils.

Copyright 2011 © Stone | Rosenblatt | Cha

20

## When the Property Necessitates Special Attention to Coverage Levels or Limits

- Property is in poor condition
- Older home
- Remodeling without permits
- Vacant or rental property

Copyright 2011 © Stone | Rosenblatt | Cha

21

## Ordinance or Law Exposures

- Building codes change
- Some houses do not upgrade
- If houses are significantly damaged, the law requires the structure be brought up to code
- The costs for ordinance or law upgrade is excluded, but later added, usually up to 10% of the dwelling limit

Copyright 2011 © Stone | Rosenblatt | Cha

22

## ***Valuation of the Home from the Insurance Standpoint***

Copyright 2011 © Stone | Rosenblatt | Cha

23

## **Concepts of Valuation Which Have Little or Nothing to Do with Insurance Claims**

- Sentimental Value
- Purchase Price or Basis
- Accounting Value or Book Value
- Tax Assessment
- Fair Market Value

Copyright 2011 © Stone | Rosenblatt | Cha

24

## Valuation Methods most Relevant for Property Insurance

- **Replacement Cost Value (“RCV”)**
  - C.I.C. § § 2051(a), 2051.5, 10102
  - Cost to repair or replace w/o deduction for depreciation
- **Actual Cash Value**
  - Replacement cost minus physical depreciation

Copyright 2011 © Stone | Rosenblatt | Cha

25

## Loss Settlement Provisions

- **Standard ISO HO forms**
  - Covers most, but not all building components on a replacement cost basis;
  - Amount of insurance should be equal to at least 80% of the building’s full replacement cost value immediately before the loss
  - Not included in HO-8 forms

Copyright 2011 © Stone | Rosenblatt | Cha

26

## How Loss Settlement Provisions Apply

- These provisions determine whether an insured gets full replacement cost for the loss
- If the amount is properly determined, insured gets full replacement cost up to policy limits
- If the cost is insufficient, policy typically provides that the insured will get a proportion of the replacement cost, or ACV, whichever is greater

Copyright 2011 © Stone | Rosenblatt | Cha

27

## Insurance-to-Value Requirement: 80%

- Insured gets RCV if the property is insured to at least 80% of the RCV
- If the property is significantly underinsured, the insured gets only ACV
- If slightly underinsured, will get an amount between RCV and ACV

Copyright 2011 © Stone | Rosenblatt | Cha

28

## Differences Between Actual Cash Value (“ACV”) and Replacement Cost Value (“RCV”)



Copyright 2011 © Stone | Rosenblatt | Cha

29

## Actual Cash Value (“ACV”)

- ACV requires a reduction for depreciation
- Depreciation is loss in value of property over time

Copyright 2011 © Stone | Rosenblatt | Cha

30

## Measure of ACV:

- Policy limit *or* cost to rebuild or repair, less physical depreciation based on its condition, *whichever is less*
- Depreciation taken on structure components only

Copyright 2011 © Stone | Rosenblatt | Cha

31

## RCV: The Measure of Indemnity

- The lesser of either the policy limit or the amount that it will cost to repair rebuild or replace w/o deduction for depreciation
- If the policy requires the insured to repair/replace to collect full replacement cost, insurer pays ACV until repairs are made, then remaining reasonable replacement cost, up to limits

Copyright 2011 © Stone | Rosenblatt | Cha

32

## What is Not Considered in Establishing RCV

*Some types of improvements are not considered when computing RCV:*

- Footings, foundations, building support, below undersurface
- Underground flues, pipes, wiring, drains

Copyright 2011 © Stone | Rosenblatt | Cha

33

## Property Covered on ACV Basis on Unendorsed Coverage Forms

- Personal property
- Awnings, carpets, appliances, outdoor antennas, outdoor equipment
- Structures that are not buildings

***Losses to such property will not be settled for more than the actual amount required to repair or replace the item***

Copyright 2011 © Stone | Rosenblatt | Cha

34

## Holdback Provision

- ACV paid until actual repair or replacement is complete
- Motivates insured to complete the proper repairs
- Holdback provision does not apply if cost to repair/replace is less than 5% of the insured amount and less than \$2,500

Copyright 2011 © Stone | Rosenblatt | Cha

35

## Delayed Holdback Claims

- Insured has 12 months after ACV payment to decide to get property repaired and receive RCV
- 24 months if state of emergency
- The insured does not have to complete the repairs, just make a decision about replacing the damage within that 12 month period

Copyright 2011 © Stone | Rosenblatt | Cha

36

## Applicable Insurance Code Sections which Pertain to ACV/RCV

*California Insurance Codes ("CIC"):*

- § 2051
- § 2051.5
- §10102

Copyright 2011 © Stone | Rosenblatt | Cha

37

## New Disclosure Forms

Effective July 1, must accompany policies  
Applies to all residential property insurance

- *Disclosure Form*
  - Describes ACV and "guaranteed RC"
  - Removes provision re insuring dwelling to full replacement cost
- *Bill of Rights*
  - Eliminates first 16 lines of current disclosure form

Copyright 2011 © Stone | Rosenblatt | Cha

38

## Homeowner Dwelling Value from the Construction Expert's Perspective



Copyright 2011 © Stone | Rosenblatt | Cha

39

## Components of a Dwelling's Replacement Value

- Shape of Outside Perimeter:

Is it complex and therefore expensive to rebuild?



Copyright 2011 © Stone | Rosenblatt | Cha

40

## Type of Foundations



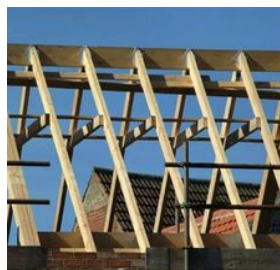
- :
- Slab on Grade
- Raised Foundation with Piers and Posts
- Below Grade or Basement

Copyright 2011 © Stone | Rosenblatt | Cha

41

## Type of Frame

- Modern Light Framing
- Balloon Framing
- Light Gauge Metal Framing
- Masonry/Concrete

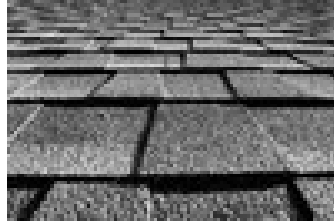


Copyright 2011 © Stone | Rosenblatt | Cha

42

## Roofing Material

- Concrete Tile (“S” type of flat)
- Composition Tile
- Slate Roof
- Standing Seam (copper or light gauge alum/steel)
- Flat Roof (Built up, modified bitumen or single ply)
- Green Roofs
- Solar Roofs



Copyright 2011 © Stone | Rosenblatt | Cha

43

## Types of Exterior Cladding

- Stucco
- Wood
- Wood Shingle/Shake
- Wood/Concrete Composites
- Aluminum
- Vinyl
- Brick Veneer
- Stone Veneer
- EIFS (Exterior insulation finishing systems)

Copyright 2011 © Stone | Rosenblatt | Cha

44

## Additional Components for Property Valuation

- Whether structure is located on a slope
- Soil conditions (expansive, sandy, rocky, swampy, forest)
- Fire or flood zone, equipped with detectors?
- Locale in relation to fire stations
- Building code compliance (changes every 3 years)

Copyright 2011 © Stone | Rosenblatt | Cha

45

## Additional Components for Property Valuation: Finishes

- Doors and windows (wood, aluminum, vinyl, dual or single glaze)
- Kitchen and baths (cabinets, countertops, fixtures, lighting)
- Living and entertainment (home theatre, fireplaces)
- Interior finishes/window covering/lights
- Built in appliances

Copyright 2011 © Stone | Rosenblatt | Cha

46

## Additional Components for Property Valuation (cont.)

- Locale
- Comparison to other similar homes in the area (e.g. general care and maintenance)
- Asbestos
- Lead
- Signs of past or present water intrusion

Copyright 2011 © Stone | Rosenblatt | Cha

47

## Appurtenant Structures as Additional Components for Property Valuation

- Pool, spas and fountains
- Detached garage
- Fences
- Detached patio
- Security gates and intercom system
- Driveway

Copyright 2011 © Stone | Rosenblatt | Cha

48

## Effects of Catastrophic Events on Replacement Cost

- Shortage of Labor, Fuel, Materials and Transportation
- Demand Surge



Copyright 2011 © Stone | Rosenblatt | Cha

49

## Short Break



Copyright 2011 © Stone | Rosenblatt | Cha

50

## ***Homeowners Policies: The Standard and Not-So-Standard Forms***

Copyright 2011 © Stone | Rosenblatt | Cha

51

### **The Standard Five: Broad Form (HO-2)**

- Provides “broad form” or named perils coverage for both the dwelling and personal contents

Copyright 2011 © Stone | Rosenblatt | Cha

52

## The Standard Five: Special Form (HO-3)

- Provides “special form” or open perils coverage which insures all risk except for named exclusions on the dwelling structure, and named perils coverage for both the dwelling and personal contents

Copyright 2011 © Stone | Rosenblatt | Cha

53

## The Standard Five: Tenants Form (HO-4)

- Provides “broad form” or named peril coverage for tenants and renters;
- No coverage for the dwelling

Copyright 2011 © Stone | Rosenblatt | Cha

54

## The Standard Five: Comprehensive Form (HO-5)

- This form provides “special form” or “open perils” coverage which insures all risk coverage except for named exclusions on the dwelling, personal property, and other structures

Copyright 2011 © Stone | Rosenblatt | Cha

55

## The Standard Five: Unit Owners Form (HO-6)

- This form provides “broad form” or named peril coverage for condominium owners

Copyright 2011 © Stone | Rosenblatt | Cha

56

## The Not So Standard Form: Modified Form (H0 08)

- Provides ACV modified peril coverage for owner occupied dwellings not suitable for standard forms
- Typically older or higher risk
- Only coverage in which both buildings and contents are protected against named perils with extended coverage perils and VMM

Copyright 2011 © Stone | Rosenblatt | Cha

57

## ***Homeowners Policies: Coverage Classifications***

Copyright 2011 © Stone | Rosenblatt | Cha

58

## Five Coverage Classifications

### Coverage A-Dwelling

- Value of dwelling, not land;
- As long as the dwelling is insured to 80% of actual value, losses will be adjusted at replacement cost, up to policy limits

Copyright 2011 © Stone | Rosenblatt | Cha

59

## Coverage B –Other Structures

- Covers structures around property, typically 10-20% of Coverage A;

Copyright 2011 © Stone | Rosenblatt | Cha

60

## Coverage D –Loss of Use/ALE

- Limits vary; should provide for any necessary increases in living expenses so that the household can maintain its standard of living, including moving expenses.
- May also provide coverage for storage, cleaning, eating out, transportation costs, boarding care for animals.
- Might also provide fair rental value minus expenses.

Copyright 2011 © Stone | Rosenblatt | Cha

61

## ***Enhancements and Endorsements to the Homeowners/Dwelling Policy & Identification of Coverages that Help Protect against Underinsurance***

Copyright 2011 © Stone | Rosenblatt | Cha

62

## Additional Coverages and Exclusions

- Add'l Coverages vary but can include:
  - Reimbursement for reasonable repairs
  - Tree and tree removal
  - Credit card or identity theft
  - Collapse
- Exclusions vary by form

Copyright 2011 © Stone | Rosenblatt | Cha

63

## Significant Property Enhancements and Endorsements

- Schedule Property Endorsements (Agreed Value)
- Personal Property Replacement Cost
- Personal Injury
- Home Business Endorsement

Copyright 2011 © Stone | Rosenblatt | Cha

64

## Catastrophe Coverages

- Earthquake
- Flood
- Hurricane/Tornado
- Mold
- Subsidence/Landslide

Copyright 2011 © Stone | Rosenblatt | Cha

65

## The Effects of a Catastrophe on Rebuilding

- Demand for Labor = ↑ Costs
- Demand for Materials = ↑ Costs
- Blocked Access = Delays
- Permit Restrictions = ↑ Costs

Copyright 2011 © Stone | Rosenblatt | Cha

66

## Types of Replacement Cost Coverages

- Basic Replacement Cost Coverage
- Extended Replacement Cost Coverage
- Guaranteed RC w-Full BCU
- Guaranteed RC w-limited/no BCU

Copyright 2011 © Stone | Rosenblatt | Cha

67

## Basic Replacement Cost Coverage

- Intended to provide for cost to repair or replace the dwelling without a deduction for physical depreciation
- Most policies pay only ACV until the repairs have begun or are completed
- Maximum amount limits specified in the policies

Copyright 2011 © Stone | Rosenblatt | Cha

68

## Extended Replacement Cost Coverage

- Extends coverage above the dwelling limits up to a stated percentage or specified dollar amount (policy limit)
- Typically a percentage above the policy limits, usually 120-150%
- Subject to deductible; frequent requirement of actual repair or replacement

Copyright 2011 © Stone | Rosenblatt | Cha

69

## Guaranteed Replacement Cost Coverage

- *Guaranteed Replacement Cost with Full Building Code Upgrades*
  - Covers full cost to repair regardless of the limits shown on policy declaration
  - Broadest form of coverage available
- *Guaranteed Replacement Cost with Limited/No Building Code Upgrades*

Copyright 2011 © Stone | Rosenblatt | Cha

70

## Misuses

Never intentionally devalue the risk  
and rely on the RC endorsement

- Violation of Regulations
- Harms the Policyholder

Copyright 2011 © Stone | Rosenblatt | Cha

71

## Building Ordinance Coverage Requirements

- What is included and excluded (CIC § 10102)
- Various types and levels
- Particular to specific locations/risks
- Limits and sub-limits
- Appurtenant Structures

Copyright 2011 © Stone | Rosenblatt | Cha

72

## ***Fire Policies***



Copyright 2011 © Stone | Rosenblatt | Cha

73

## **Basic Fire Policies: Real Property Forms**

- Broad Form vs. Special Form
- Comprehensive Form vs. Modified Coverage Form
- Policy Declarations
- Policy Agreement (Insuring Clause)
- Conditions

Copyright 2011 © Stone | Rosenblatt | Cha

74

## Basic Fire Policies: Real Property Forms (cont.)

- Conditions: things or issues that will suspend or restrict coverage, insureds' obligations, such as reporting additional hazards, mitigating losses, reporting claims
- Policy Exclusions

Copyright 2011 © Stone | Rosenblatt | Cha

75

## Basic Fire Policies: Real Property Endorsements

- Catastrophe
- Valuation and Limits
- Building Ordinance
- Appurtenant Structures
- Extended or Guaranteed Replacement Cost

Copyright 2011 © Stone | Rosenblatt | Cha

76

## Additional Coverages

- Other structures, e.g.. patios, fences, awnings
- Landscaping, fencing, antennas/satellite
- Equipment/utility service structures
- Walkways/driveways
- Bulkheads, piers, retaining walls
- Pools, spas

Copyright 2011 © Stone | Rosenblatt | Cha

77

## Standard Form Fire Policy

- Content and language mandated by CIC § 2071
- Required coverage for specific perils
- Required exclusions/perils

Copyright 2011 © Stone | Rosenblatt | Cha

78

## FAIR Plan Coverage

- Available to insureds subjected to hazards beyond their control
- Specially designated areas
- When insurance is not available through normal channels
- Through association of insurers

Copyright 2011 © Stone | Rosenblatt | Cha

79

## FAIR Plan Coverage (cont.)

- Insures fire, lightning, internal explosion
- Extended coverage optional, e.g., other structures, ALE, O&L, debris, landscape
- Fire/EQ available, restricted limits
- Watch for co-insurance

Copyright 2011 © Stone | Rosenblatt | Cha

80

## Earthquake Coverage

- Insurers must offer EQ coverage
- HO RCV
- Renters
- Common Interest developments
- Conditioned upon valid, existing fire policy
- Deductible: 5 - 15%

Copyright 2011 © Stone | Rosenblatt | Cha

81

## Earthquake Coverage: Exclusions

- Earthquake-related floods/tsunamis
- Non-utilitarian artwork/decorations
- Non-attached appurtenant structures
- Landscape, hardscape, pools, spas, fountains, fences, patios, awnings
- Antennas, satellite
- Exterior masonry veneers

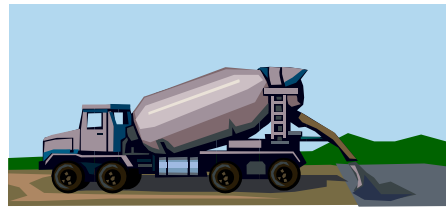
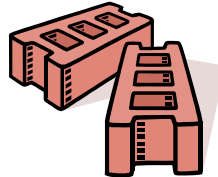
Copyright 2011 © Stone | Rosenblatt | Cha

82

## Types of Basic Building Construction: Type I

### Type I Fire Resistive

Steel, iron, concrete or masonry  
Noncombustible, fire-resistive construction



Copyright 2011 © Stone | Rosenblatt | Cha

83

## Types of Basic Building Construction: Type II

### Type II Non-Combustible

Similar to Type I, but limited to 1 hr fire rating and may use fire retardant-treated wood within assembly



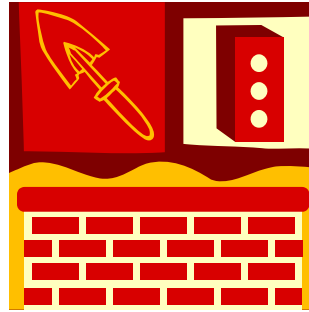
Copyright 2011 © Stone | Rosenblatt | Cha

84

## Types of Basic Building Construction: Type III

### Type III Ordinary

Includes steel, iron, concrete, masonry and can be wood as long as it meets 1 hour rating



Copyright 2011 © Stone | Rosenblatt | Cha

85

## Types of Basic Building Construction: Type IV

### Type IV: Heavy Timber

Interior wood:

>8"x 8" wood posts

>6"x 6" floors & roofs

Floor/roof plank board

No plaster walls or ceilings



Copyright 2011 © Stone | Rosenblatt | Cha

86

## Types of Basic Building Construction: Type V

### Type V: Most Common

One-hour rated buildings of any material allowed by the code

Certain exceptions are made for the one hour rating, e.g., construction of stairways, roofs, and specific occupancies including residential homes



Copyright 2011 © Stone | Rosenblatt | Cha

87

## Types of Basic Building Construction: Metal

Light steel framing most common

Industrial

Melting issues: still need fire protection

Special materials

Special labor



Copyright 2011 © Stone | Rosenblatt | Cha

88

## Protected “A” vs. “B”

- *Protected “A” building has additional fire rated coating or cover*
- *Extends fire resistance rating at least 1 hour*
- *Protected “B” means no additional fire rated coating or cover*

Copyright 2011 © Stone | Rosenblatt | Cha

89

## Short Break



Copyright 2011 © Stone | Rosenblatt | Cha

90

## Your New Responsibilities: CCR 2695.182

- Provide insured with copy of RC estimate at time policy limit is set
- Maintain copy of estimate for entire policy term + 5 years after expiration
- Changes or updates w/n 60 days from the date generated
- For policies which are not bound, keep estimate records 3 years

Copyright 2011 © Stone | Rosenblatt | Cha

91

## Your New Responsibilities: CCR 2695.183

- Remind insured that RC estimates cannot include “demand surge”
- Remind insured that add'l coverage for “demand surge” can be obtained
- Ensure that estimates include expenses that would be reasonably incurred to rebuild structure

Copyright 2011 © Stone | Rosenblatt | Cha

92

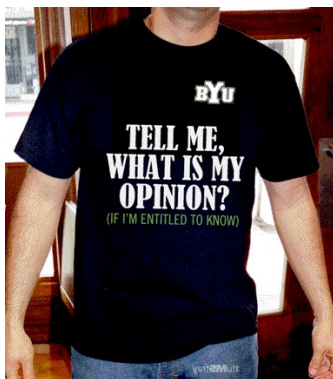
## Your New Responsibilities: CCR 2695.183 (cont.)

- RC estimates cannot be based on resale value of land or outstanding balance of loan
- RC estimates cannot include a deduction for physical depreciation
- If estimates do not meet standards, explain exactly what elements are not addressed

Copyright 2011 © Stone | Rosenblatt | Cha

93

## Property Valuation Tools Checklist



### Make sure the PVT does the following:

- Collect data on regular basis, including data from past claims
- Quality control checks by comparing real construction costs with claim settlements

Copyright 2011 © Stone | Rosenblatt | Cha

94

## Property Valuation Tools Checklist (cont.)

- Cost of permits
- Architects' plans
- Geographic locale
- Number of stories
- Nonstandard wall heights
- Cost of demolition and debris removal
- Square footage of living space
- Slope locale
- Size and type of attached garage
- Age of structure or year built

Copyright 2011 © Stone | Rosenblatt | Cha

95

## Property Valuation Tools Checklist (cont.)

- Type of foundation
- Type of frame
- Roofing materials
- Type of roof
- Siding materials
- Type of siding
- Interior features and finishes
  - Heating/AC
  - Walls
  - Flooring
  - Ceiling
  - Fireplaces
  - Kitchen
  - Baths

Copyright 2011 © Stone | Rosenblatt | Cha

96

## Property Valuation Tools Checklist (cont.)

### Don't forget to check that it includes:

- Cost of building materials and supplies
- Wage rates, both union and nonunion
- Assessment of productivity rates and crew sizes
- Overhead and profit
- Cost of rebuilding a single home (as opposed to building 100 homes of same type at the same time)

Copyright 2011 © Stone | Rosenblatt | Cha

97

## When the Carrier Directs Use of Valuation Software



- Insurer must prescribe procedures
- Insurer must provide agent training
- Insurer (not the agent) is responsible for noncompliance

Copyright 2011 © Stone | Rosenblatt | Cha

98

## Types of Valuation Software

- Marshall Swift
- Xactimate
- Value 360
- Insurance Company-proprietary software



Copyright 2011 © Stone | Rosenblatt | Cha

99

## Other Good Options

- Real Estate Appraisals (CCR 2695.181)
  - More expensive
  - Permitted so long as 2695.183 components are utilized
- Contractor/Expert estimates
  - Excellent source of info
  - More Expensive than online software

Copyright 2011 © Stone | Rosenblatt | Cha

100

## Outdated Alternative



- Cost “per square foot” estimates
  - Dated and insufficient basis
  - Ignores demolition, building code, construction quality
  - No longer complies with 2685.183

Copyright 2011 © Stone | Rosenblatt | Cha

101

## Really Bad Option

### Insured's Opinion

- Used to be good enough: no more
- Most insureds have insufficient understanding of construction costs
- More likely to confuse FMV with RC



Copyright 2011 © Stone | Rosenblatt | Cha

102

## Custom and Pre-1940 Homes and Effect on RCV

- What will it cost to update to current code requirements, including fire codes
- What about remediation of lead paint and asbestos
- Replacement of original materials

Copyright 2011 © Stone | Rosenblatt | Cha

103

## Other Factors that Affect RCV

- Suburban vs. metro locale
- Accessibility
- Special architectural rules in particular zones or communities
- Special terrain issues

Copyright 2011 © Stone | Rosenblatt | Cha

104

## Fire Mitigation and How it Affects Insurance Costs

### The California Wildland-Urban Interface Fire Problem (“WUI”)



Copyright 2011 © Stone | Rosenblatt | Cha

105

## Risk and Hazard Effects in the California WUI

- Topography
- Fuel types and locations
- Weather
- Construction
- State Fire Marshall Building Materials Listing Program

Copyright 2011 © Stone | Rosenblatt | Cha

106

## Laws that Impact Risk and Hazard Mitigation

- Defensible space and fire-resistant requirements
- Building construction
- Land use and planning



Copyright 2011 © Stone | Rosenblatt | Cha

107

## How to Help the Insured Mitigate its Fire Threat

- Help the insured evaluate the threat
- Complete fire protection approach
  - Building construction
  - Land use
- There is more than one “tool in the tool box”

Copyright 2011 © Stone | Rosenblatt | Cha

108

# Questions



Copyright 2011 © Stone | Rosenblatt | Cha

109

# Conclusion



Copyright 2011 © Stone | Rosenblatt | Cha

110