

# Valuation and Cause of Loss

## Commercial Lines



Valuation and cause of loss help determine what the cost of a property loss will be and whether it is eligible to be paid. While this only comes into play after a loss, the information entered at quoting can set the tone for the entire life of the policy and claims process. It is important to understand the requirements for valuation and how they are applied to a claim, as well as the requirements for cause of loss and how they impact claim coverage.

Let's start by breaking down what valuation is versus cause of loss.

VALUATION	CAUSE OF LOSS
<ul style="list-style-type: none"> <li>Tells us the potential financial responsibility for a property loss</li> </ul>	<ul style="list-style-type: none"> <li>Tells us if a property loss is eligible to be paid (<a href="#">full list of what each form covers</a>)</li> </ul>
<ul style="list-style-type: none"> <li>Three types of valuations that could apply:                             <ul style="list-style-type: none"> <li>Replacement cost (RC)</li> <li>Actual cash value (ACV)</li> <li>Functional building value (FBV) <i>(We do not offer agreed value. FBV not available in Connecticut.)</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Three cause of loss forms that could apply:                             <ul style="list-style-type: none"> <li>Special</li> <li>Basic</li> <li>Broad</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>Traits that can affect valuation:                             <ul style="list-style-type: none"> <li>Building year</li> <li>Roof age/type</li> <li>Square footage (<a href="#">CLUE on this topic</a>)</li> <li>Major updates to heating, plumbing, electrical</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Traits that can affect cause of loss:                             <ul style="list-style-type: none"> <li>Roof age/type</li> <li>Type of plumbing</li> <li>Prior losses</li> </ul> </li> </ul>

Note: We will only touch on requirements for each component. If you'd like to learn more about valuation and cause of loss, please check out the following USLI University classes:

- [Understanding Valuation](#)
- [Cause of Loss Forms](#)

## Building Year

The building year must fall under the following criteria:

REPLACEMENT COST	ACTUAL CASH VALUE	FUNCTIONAL BUILDING VALUE
Should only be offered on buildings that are well maintained, in good repair and that have acceptable tenants. We generally can offer RC coverage on buildings <b>up to 60 years old</b> .	If the building is <b>over 60 years old but less than 90 years old</b> , we will offer ACV or FBV. Exception: If the building has undergone a "gut rehab" (complete updates to heating, electrical, plumbing and roof), we can consider offering RC.	Must be used on all buildings <b>over 90 years old</b> . FBV should also be used on other buildings that have special construction features, materials or methods that are no longer in use.

## Roof Age and Type

To be eligible for RC and Special Form, the roof must have been replaced/recoated within the past:

- 15 years if flat (tar/gravel)
- 20 years for shingle or wood shake
- 25 years for tile
- 40 years for metal or concrete
- 50 years for slate
- 10 years for any other

**Valuation:** If the roof does not meet the above criteria, we can still offer RC on the building; however, we will only offer ACV on the roof (attach endorsement CP118 – Actual Cash Value Roof Endorsement).

**Cause of Loss:** If the roof does not meet the above criteria, Basic Form must be offered.

### Helpful Hint!

- ✓ During your web review, make sure to look at the aerial view of the building to determine any damage to the roof.
- ✓ Realty websites can be extremely useful in determining building year. Simply put the address in Google, and multiple sites will pull up if the risk has been for sale in the past 10 years or so.

## Plumbing and Losses

To be eligible for Special Form, the risk must have 100% copper and/or PVC plumbing. The only exception is the main water line that runs from the public water line to the risk, as this is out of the insured's control and should not be factored. If the risk does not have copper and/or PVC plumbing throughout the whole building, Basic Form must be offered.

If the insured locations have had a prior water or theft claim in the past three years but meet all other update criteria, we may still offer Special Form but exclude water and/or theft.

## Valued Policy States

Make sure the risks in the following states are valued as accurately as possible:

**Arkansas, Iowa, Kansas, Missouri, Mississippi, Montana, Nebraska, New Hampshire, North Dakota, South Dakota, Texas, Wisconsin**

In a valued policy state, the insurer is prevented from paying anything other than the face value of the policy when a total loss is caused by a covered peril, even when the face amount of the policy exceeds the actual cash value of the property at the time of loss. The limit of insurance stated in the policy is considered to be the value of the building at the time of loss and is payable in full (in the event of total loss).

## Additional Notes

When Special Form is offered, there are additional limits allowed under the **Value** (CP-131) and **Value Plus** (CP-108) endorsements. Please see pages 36 and 37 in the [General Underwriting Guide](#) for more details on how those limits are expanded.

**Ordinance or law (O&L)** criteria is also affected by the valuation of the risk. We offer three coverage options for O&L. Here are some quick facts about how this coverage is offered.

COVERAGE A	COVERAGE B	COVERAGE C
Undamaged portion	Demolition costs	Increased cost of construction
Can be offered with any valuation	Can only be offered on RC	Can only be offered on RC

We can offer coverage A up to the building limit.

Coverages B and C can be offered individually or blanket.

The maximum limit we offer for coverages B and C (whether separately or blanket) is \$300,000.