

Does Your Property Conform to the Latest Building Codes?



Ordinance or Law Coverage

After a property loss, you may be surprised to learn your damaged or destroyed structure does not conform to the latest building codes. Then comes the unpleasant surprise of discovering that the "Ordinance or Law" exclusion in the property insurance policy will prevent a full recovery. With building codes continually changing - requiring features like new or improved sprinkler systems, better wiring and handicap accessibility- this dilemma is not uncommon. That's why it is important to understand the Ordinance of Law Exclusion- and the coverage that addresses it.

What is the Ordinance or Law Exclusion?

The Ordinance or Law Exclusion states that the insurer will not pay for loss or damage caused directly or indirectly by:

"The enforcement of any ordinance of law:

- 1) Regulating the construction, use or repair of any property; or
- 2) Requiring the tearing down of any property, including the cost of removing its debris."

This exclusion is aimed at the application of building codes of various kinds-construction, electrical, plumbing, fire safety, etc. - that may require more expensive reconstruction materials, installations, design or methods after the loss than used in the existing building. Some laws, even when allowing reconstruction with the same materials or design, also require that if the building is damaged beyond a specified percentage of its value (50, 60 or 75 percent is typical) the remaining portion of the building must be demolished before reconstruction can begin.

Three Areas of Loss

Ordinance or Law Exclusion can produce three distinct and separate areas of uninsured loss:

- 1) Loss of the value of the undamaged portion of a building when the building must be torn down or modified to meet the current code requirements, when building damage exceeds the percentage specified in the code, or when reconstruction of the building at the site is not permitted under the code;
- 2) Cost of demolition and removal of the debris of undamaged portions of the structure that must be torn down.
- 3) Increased cost of reconstruction-the added cost to repair or rebuild in accordance with the current code.

What To Do?

The question naturally arises at this point: How can we determine whether the exclusion will apply in any given case and what will be its probable effect on a loss adjustment? Consultation with the city or county building department will often be the most helpful in this regard. These officials may even be aware of federal laws that might come into play or be able to offer the names of persons who are knowledgeable in this area.

Some basic questions should be raised:

--Do any existing codes prohibit rebuilding with present construction, occupancy, size or location, or require demolition if more than a given percentage of the building is damaged? What percentage?

--Since the present building was constructed or operations began, have there been changes in any of the codes that could adversely affect the property or operations? What are they? What would be their probable effect in the event of a severe loss? As an alternative, it might be advisable that you seek the assistance of competent attorneys involved in real estate law.

While the increased costs associated with rebuilding to current codes might bring a rude awakening, they need not result in an unpleasant surprise for the insured who has experienced a major property loss. Properly planned and placed Ordinance or Law Coverage will help make sure that the full recovery to which the insured believes they are entitled actually takes place.

Please contact your Hibbs-Hallmark & Company account representative for more information.

Sincerely,

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Executive Vice President

