



Ordinance and Law: Are You Discussing This Coverage With Your Clients?

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Do you think everyone in your agency is knowledgeable about Ordinance and Law Coverage? There's a good chance that not everyone is familiar with it. The coverage is fairly unique but is very important.

Ordinance and Law Coverage is typically included on Homeowners policies. The standard coverage is usually a low percentage of the Coverage A limit, around 10% with higher percentage limits available for an additional premium. Ordinance and Law Coverage can pay not only for rebuilding a destroyed home but also upgrading the home, so it meets current building codes.

When looking at a claim that involved Ordinance and Law Coverage, the lowest policy amount was not enough. The claim alleged the agency failed to procure the requested coverage for the agency's client. The key issue was that the agency staff member was unaware of the differences in three options under the Ordinance and Law Coverage and thought the client had limits of \$100,000 under this coverage when, in fact, they only had \$10,000.

After the client's roof suffered hail damage, it was determined the building code had changed and required the client to add a membrane coating under the roof. The client was seeking \$100,000 under the Ordinance and Law Coverage, far more than the \$10,000 policy limit. The client sued for the additional \$90,000 alleging the agency failed to procure the requested coverage and did not properly understand the options/coverage provided. An E&O claim was brought against the agency.

Could this type of claim happen in your agency?

Ordinance and Law Coverage can include three separate types of coverage:

- › **Coverage for Loss to the Undamaged Portion of the Building** – In some jurisdictions, the building code may require that a partially damaged building be demolished. This type of coverage states that if this type of ordinance is in place and enforced by the local authorities, the insurance policy will treat the claim as a total loss even though the building was only partially damaged.
- › **Increased Demolition Cost** – This type of coverage applies to the cost of the demolition to the undamaged portions of the building.
- › **Increased Cost of Construction** – This type of coverage applies to any increased expenses incurred to upgrade, repair, or replace the building while conforming to the current building laws or ordinances.

The basic coverage in the Homeowners policy may not be enough for these associated costs, as in the claim example above. At a minimum, the agency should make the client aware of what the Ordinance and Law Coverage can provide and the limits available. Some agency staff may think the coverage is only for older homes, but that is not true. There is a possibility that homes built 10 years ago could have this exposure if the municipality where the client resides has undergone some type of a building code change.

Agencies should consider the following tips for Ordinance and Law Coverage:

- › Provide agency staff, Personal and Commercial Lines, with the necessary training to ensure they know the coverage and how to properly explain it.
- › All proposals should include reference to this coverage and the additional limits available for purchase.
- › There should be clear documentation with the client's signature of any agreed upon coverages and limits.
- › Consider educating current and prospective clients on the importance and implications of this coverage, possibly in a social media campaign that could generate additional sales.

Typically, when discussing Homeowners Coverage, the more prominent threats (fire, theft, etc.) are discussed. Agencies should not discount the importance of Ordinance and Law Coverage.

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