

A loss control and risk management communication for schools.

Extra Credit

November 2010

Protecting and Valuing Your Property

As part of your school district's on-going risk management and insurance assessments, it's a good idea to make sure you have your current property protected and valued according to your needs. As an insurer of public school districts, we have seen circumstances where school districts have not adequately identified their property or have simply underestimated the value of their property. This can result in real problems and challenges for a school district (and us) after a loss occurs. Consequently, we suggest you consider the following to help reduce the potential for misunderstandings or disputes about your property after a loss occurs.

Work with your insurance agent to understand your property insurance needs.

Your insurance agent is often in the best position to help your school district understand its property insurance needs. As a first step, we suggest you work with your agent and your staff to create a written inventory (including photos) of your district's property and to determine what you want to insure. Save or store that inventory in a place that is accessible after a loss has occurred, such as a fire- and water-safe cabinet. When requesting insurance coverage from us, make sure that you and your insurance agent read, understand and fully complete applications for property insurance so that you (and we) know what property insurance protections and limits you are seeking. As part of the underwriting process, we encourage you and your agent to communicate with us about (and to underscore) any particular coverage needs. Finally, once you receive the property insurance proposal we issue to your school district, make sure that you and your agent fully review and understand the terms, limitations and conditions of the coverage we are providing.

Purchase the type of property coverage to best meet your insurance needs.

Many property insurance policies are issued with "replacement cost" coverage. This type of policy has certain benefits: namely, that if your covered property is damaged due to a covered cause of loss, the policy will provide payments to you for the repair or replacement of the damaged property up to its full repair or replacement cost (provided that you actually do repair or replace the damaged property), subject to all applicable limits, exclusions and other provisions of the policy. This type of coverage is almost always issued with a requested coinsurance clause (or percentage). A coinsurance clause requires that your property be insured to at least a certain percentage (i.e., the "coinsurance percentage") of its full replacement cost value. In exchange for this coinsurance election by you, the premium charged for the property policy is typically reduced – i.e., the greater the coinsurance percentage you elect, the greater the premium reduction, and vice versa. A downside, however, to this type of policy is that if, after a loss occurs, it

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is determined that the property was not insured to at least the coinsurance percentage you requested in the insurance policy, then a coinsurance “penalty” will apply. This penalty will reduce the repair or replacement cost loss payment for the applicable property covered under the policy in proportion to the amount the property was underinsured. As an alternative to replacement cost coverage that is subject to a coinsurance clause, you and your insurance agent may want to (or need to) consider insuring at least some of your property on an “agreed value” basis – particularly if you have concerns about your property values and the potential application of a coinsurance penalty. You and your agent should talk to and work with our underwriters on various insurance options for your district’s property.

Understand the costs to repair or replace your property.

In order to help better understand the costs to repair or replace your district’s property, we think it’s important for you to consider working with qualified property

appraisal services, property construction experts, and your insurance agent to help you assess your property values. You should not just assume that you know what it costs to repair or replace your damaged property. For example, the construction market is dynamic and costs can be variable based on many factors, such as labor rates, materials costs, demand surge, and other pricing factors. Notwithstanding the myriad variables, there are many appraisal, construction, and risk management resources available to help your district with its “insuring to value” process. If you use these resources wisely, you should gain a greater appreciation of the values of the property you are entrusted to protect, become more confident in identifying your insurance coverage and limits needs, and, ultimately, create a more solid risk management process for your district.

If you have any additional questions or comments about this information, please contact our loss control department at (612) 766-3100 or nschneider@riverportinsurance.com.

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