Insurance for Ice Arenas: Property Coverage Part II

by Charles H. Cox

Ice arena owners and operators, facing insurance renewals in this challenging marketplace need to identify the coverage enhancements that are important to them. With this issue of the EDGE, we continue our focus on Property Insurance.

Replacement Cost coverage is considered the most advantageous basis of recovery for policyholders since it provides for recovery on a new-for-old basis. Ice arena owners and operators need to evaluate the loss recovery basis that is right for them and must look at scenarios involving both small and large losses. Sometimes, when older buildings are involved, insurance buyers conclude that, in the event of a total loss, they would not rebuild their facility and conclude that replacement cost coverage is not necessary. They opt instead for an Actual Cash Value (physically depreciated value) basis of recovery. This may be fine for a total loss, if indeed there is no intent to rebuild. Nevertheless, for large partial losses, policyholders may desire the flexibility to repair the damage with new materials. An Actual Cash Value loss settlement on such a partial loss will likely leave the policyholder with an insurance settlement shortfall. In most cases, therefore, Replacement Cost coverage will be the preferred basis of recovery.

Most standard Property insurance policies contain a coinsurance provision requiring policyholders to maintain an amount of insurance equal to a stated percentage of the property's value. Failure to maintain coverage at that level will result in the assessment of a coinsurance penalty proportionate to the extent that the value insured does not comply with the percentage requirement at the time of a loss.

Although policyholders can make attempts to ensure that the amount of coverage that is maintained complies with the coinsurance requirement of the insurance contract, values can change between a policy's inception and the date of a loss, due to inflation or improvements to the property increasing its value. To prevent a coinsurance penalty, Agreed Value coverage can be purchased, whereby the insurer agrees in advance (of policy inception) that the values declared and insured will comply with the stated coinsurance provision at the time of a loss.

In today's insurance market, insurers are often reluctant to offer Agreed Amount coverage unless there is reasonable substantiation of the values being insured. Having an insurance (not a real estate) appraisal on the property or other form of substantiation will likely satisfy insurers and result in the availability of Agreed Amount coverage.

Blanket Coverage, where one limit applies to all insured buildings and/or contents at one or more locations, is a very desirable enhancement. This approach provided for the entire amount of buildings and contents coverage at all locations to be available for any one loss to any one building and/or its contents. Here again, in the current insurance market, many insurers will not grant this enhancement without reasonable substantiation of the insured values.

Perhaps one of the most overlooked coverage enhancements is Ordinance or Law coverage. Even if Replacement Cost coverage is maintained, a Property insurance policy will not pay losses occasioned by the enforcement of building laws or ordinances that regulate construction, use or repair of the property, or require that a portion of the property be torn down, including the cost of removing its debris.

Ordinance or Law coverage is available for policyholders who insure their property on a Replacement Cost basis, and it pays for the increased cost of construction, the value of the undamaged portion of the building that may need to be demolished, and the cost of removing its debris. These costs can be substantial, underscoring the need for this coverage enhancement. The most common exposure among property owners today stems from the Americans with Disabilities Act and its impact on reconstruction costs. For example, replacement coverage will provide for the cost to replace existing lavatory facilities with new facilities, but will not pay for the added cost to make them handicap accessible if they were not previously accessible. Having Ordinance or Law coverage will fill this gap, but in today's insurance market, insurers have begun to cut back on the availability of Ordinance or Law coverage limits.

A limit of not less than 25 percent of the building's replacement value is a minimum for most policyholders. Therefore, if the building's replacement value is $1,000,000, at least $250,000 of Ordinance or Law coverage should be provided. An assessment of your exposure to this type of reconstruction loss will be necessary as insurers cut back on the amount of coverage they will provide.

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