

Risk Management Issues for Green Buildings in Property Insurance Policies

What are the property insurance policy issues when obtaining coverage for a green building?

Summary of Traditional Property Insurance Policies

- Building & Personal Property Coverage
 - Actual Cash Value (depreciated use minus current replacement cost)
 - Replacement Costs (a new building for an old one)
 - Functional Building Valuation (repair or replace the building with one that is less expensive)
- Ordinance or Law Coverage (insurers are afraid of unanticipated costs to rebuild due to updates in the building codes, so an insurer offers an extra endorsement for coverage)
- Court Opinions
 - Cases Involving A Casualty but the law prevents rebuilding (3 lines of precedent form a single rule that requires a court to find the actual cause of the loss before considering other factors)
 - Cases Involving the Law or Ordinance Exclusion (a court must determine whether the law or ordinance exclusion is the source of the loss)

Insurance Industry Solutions

- Insurance Service Organization (ISO)
 - Building & Personal Property Coverage Form
 - Increased Cost of Loss & Related Expenses for Green Upgrades Form
 - Issues with these Forms
 - Government Incentives/No Public Policy
 - Government Mandates
 - Recommendations to Reduce Uncertainty
- Companies with Endorsements:
 - Fireman's Fund – Property Gard Green Coverage Endorsement
 - The Travelers – Green Building Enhancement Endorsement
 - Lexington/Chartis – Upgrade to Green Endorsement
 - Liberty Mutual – Green Select
 - Issues with these Forms – Most offer similar coverages and exclusions

Considerations for Insuring a Green Building

- Take into Account jurisdictional attitudes towards building green
 - Does the jurisdiction maintain a green building code?
- Valuation Issues
 - Replacement Cost offers the best solution
 - Appraisers face obstacles in attaching a proper value for green features
- Technological Issues
 - Unique architectural features
 - Product lifecycle replacement
- Policy Language
 - Does it specifically exclude the delivery and certification of the structure
 - Government Incentives

Conclusion: Property Insurance Policies for green buildings needs to reflect how the regulatory requirements, the valuation methods and amounts, and the coverage features correlate with potential losses in order to provide a more precise instrument to shift the risk.

Darren A. Prum, MBA, JD
Assistant Professor of Legal Studies

Risk Management/Insurance, Real Estate, and Legal Studies
College of Business

dprum@fsu.edu

(850) 644-0916