

## Property Insurance Valuations

Even though the Ontario Pharmacists' Association Store Insurance Policy is one of the most comprehensive composite insurance policies available in Canada today, the property insurance segments will only respond properly if you have taken a reasonably accurate and objective approach to property valuation.

Here are answers to some of our pharmacists' FAQs in that connection.

### **1. What are the principal types of loss recovery that are covered by my building insurance?**

Subject to certain terms and conditions, if your building suffers damage or destruction, your policy will indemnify you for the (a) replacement cost of your building, (b) the cost of any demolition, (c) the removal of debris, (d) any costs, over and above straight replacement, as a result of the action of building codes and other by-laws, and (e) municipal fire service department charges, if any. The insurance company can only give you a full claims recovery if you purchase a policy limit that can contain the aggregate cost of all of these risk exposures.

### **2. How do I determine the insurable replacement cost value of my building?**

The insurance value of your building is not the same as its market value.

The insurance value is based on the cost of physically replacing your building with another of similar size and type, using **new** materials. Valuation is in respect of replacement at the same site, but the insurance proceeds may be used to build another building at a new and different location, or used to contribute to the cost of a larger building.

If your building is relatively new, (e.g., 20 years old or less), and if you have a record of the original construction invoices, it should be possible to apply generalized building cost indices as a means of developing current replacement costs values. HUB International HKMB can provide you with the indices you need to make this calculation, (for further information, contact HUB HKMB). Alternatively, perhaps the general contractor who was involved in the original construction can provide you with updated values.

In other cases, you will need to either secure the services of a professional appraiser or, more likely, those of a qualified local contractor who has experience in building commercial/retail premises. The contractor can tell you (a) the approximate functional replacement cost of a building of broadly similar size and construction, and (b) include the cost of any upgrades (e.g., electrical wiring) that may be required, if any, to bring the post-fire renovated structure, or entirely new structure, into compliance with current building codes.

### **3. How do I determine the additional costs to bring the replacing or renovated building up to current building codes?**

Your appraiser, or your contractor, should be fully qualified to include these costs in the replacement cost valuation.

### **4. How do I determine the amount of insurance that I need to cover demolition and debris removal?**

This can be hard to estimate. We suggest that you use a minimum of at least 15% of the building's replacement value. For example, if the building's replacement value is \$750,000, the minimum allowance for demolition and debris would be \$112,500, for a total building insurance limit of \$862,500.

### **5. What is meant by an "improvement and betterment"?**

If you are a tenant, improvements and betterments describe building furnishings and equipment that you may have partially or wholly paid for, but which are fastened to, and which become a part of the building. At the end of your lease, ownership of these improvements and betterments will typically revert to your landlord. In the meanwhile, your insurance interest (and the value you compute for insurance purposes) should be 100% of their current replacement cost as estimated, if possible, by the original suppliers and contractors.

Do not depreciate the value of the improvements and betterments by the term of the lease - in other words, if the improvements and betterments have a replacement value of \$50,000 and the twenty five year lease only has five years to run, the depreciated value could be considered to be \$2,000. But a serious fire will probably terminate your existing lease. You will need to negotiate an entirely new lease term, on the existing premises or to secure new premises, and you will need the full \$50,000 to contribute to the purchase of new improvements and betterments amortized over the term of the new lease.

If you are the building owner, the "improvements and betterments" simply become a part of, and should be included in, the building's value.

### **6. What is meant by furniture, fixtures and equipment?**

Furniture, fixtures and equipment refers to property (other than stock or inventory) that is used in the conduct of the business. They are distinguished from improvements and betterments simply because they could be moved to another location without damaging the building in which they are presently located. Replacement furniture and fixture values are best obtained from the suppliers from whom they were purchased.

### **7. What is meant by "stock" and how is it valued?**

Stock means pharmaceuticals in the dispensary and other merchandize of every description used in the business. Stock is valued at actual cash value -- the invoiced cost of replacement stock from the usual suppliers, including freight and shipping. For insurance purposes, the reported value should be the total of your projected twelve month end inventory values divided by twelve.

You will note that stock is not insured for its retail sales value. Your profit margins are insured under a separate section of the policy that deals with indemnification of loss of gross profit, (the sales margin on stock), resulting from business interruption.

Your policy recognizes that there can be a degree of seasonal fluctuation in inventory values. Provided that you have reported 100% of the average values, the stock insurance limit will automatically cover peak inventories to a maximum value of 125% of the average.

### **8. For property insurance purposes, what is meant by "contents"?**

The policy defines "contents" as meaning equipment, furniture, fixtures and stock. Where appropriate, this characterization will include tenants' interest in improvements and betterments.



595 Bay Street, Suite 900, Box 81  
Toronto, Ontario, Canada M5G 2E3  
T 416.597.0008  
F 416.597.2313

www.hubinternational.com  
www.hkmb.com

**9. Is there some sort of penalty at time of loss if I have reported insurance values that are significantly less than they should have been?**

Yes and no.

First, you are being charged a premium rate that has been discounted on the understanding that you will report accurate 100% insurable values. If you report less than you should, you are in breach of this responsibility. This is a serious matter, but it does not lead to any consequences that, of themselves, will limit your claims recovery in any way whatsoever.

Second, in the case of a total loss, your claims recovery will fall far short of the value of your claim simply because the policy limit, which is based on the values that you have reported, is unable to contain the aggregate amount of your losses.

If, as and when your business suffers damage or destruction, we want you to be assured of a comprehensive financial and operating recovery. Please do not hesitate to be in touch with us if you have any comments, questions or concerns relating to property valuations, or any other matter relating to this insurance.

We plan on issuing further bulletins on store insurance subjects in the future to advance your understanding of the policy document. We trust that it will encourage you to review the Master Policy under which your coverage Certificate has been drawn. You can access the Master Policy document at your convenience through the OPA Website, and we hope that you consult it regularly and become as familiar as possible with its terms and conditions. We are proud of the policy, which has been developed by a team of expert consultants, brokers and underwriters to especially deal with pharmacy risk exposures.

Your own appreciation of your insurance program will expand in parallel with your increasing understanding of the quality of the arrangements that we have put in place for you.

### **Contact Details**

Customer Service Representative, HUB International HKMB  
Fax: 416-597-2313  
OPA-dedicated Phone: 1-855-OPA-7-OPA or 1-855-672-7672  
[opa@hubinternational.com](mailto:opa@hubinternational.com)

Report all claims **during regular office hours**

**Adelaide Marquardt**, Claims Specialist, HUB International HKMB  
Phone: 416-597-0555 ext. 378  
Toll-free: 1-800-232-2024 ext. 378  
Fax: 416-597-6811  
Email: [adelaide.marquardt@hubinternational.com](mailto:adelaide.marquardt@hubinternational.com)

**After hours and weekends**, report all claims, other than professional liability claims for the pharmacy, to the pharmacy insurance adjuster (please identify yourself as an OPA member):

**SCM ClaimsPro**  
Phone: 1-866-600-2841