

## **VII. BASIC ADJUSTMENT ISSUES**

### **A. ACTUAL CASH VALUE (ACV)**

The NFIP defines ACV as the replacement cost of an insured item at the time of loss, less the value of physical depreciation.

### **B. ADDITIONS AND EXTENSIONS**

Buildings that are connected by a rigid exterior wall, a solid load-bearing interior wall, a stairway, an elevated walkway, or a roof can be insured as part of the dwelling. Effective December 31, 2000, the insured has the option of obtaining separate coverage for these building items. Prior to this date, the additions and extensions were considered part of the building and had to be covered as such.

### **C. DEPRECIATION**

To accurately determine the ACV of an item, the adjuster must consider the replacement cost along with the depreciation, as well as the average useful life of the item. The condition of the item prior to loss must also be considered. The NFIP will not accept lump-sum depreciation figures. Replacement costs on contents items need to be checked more carefully and verified when they appear high.

#### **1. Building Depreciation**

If an adjuster is removing and replacing a building item that is not new, appropriate depreciation must be applied.

#### **2. Contents Depreciation**

Contents depreciation must be line by line and item by item. Each item is considered on its own merit. Things to consider include replacement cost of the item, age of the item, and condition of the item prior to the flood.

### **D. EVIDENCE OF LOSS**

#### **1. Insured's Responsibilities**

The insured's responsibilities in the event of loss (which adjusters should remind the policyholder of) are as follows:

- a. Immediately notify the agent or the company of the flood loss.
- b. As soon as reasonably possible, separate the damaged and undamaged property, putting it in the best possible order so that the adjuster can examine it and properly substantiate the loss.

- c. Place all account books, financial records, receipts, and other loss verification material in a safe place for examination and evaluation by the adjuster.
- d. Within 60 days after the loss, submit an NFIP Proof of Loss form to the WYO company or the NFIP Servicing Agent.

## **2. Adjuster's Responsibilities**

The adjuster's responsibilities in the event of a loss are as follows:

- a. Determine whether there was a general condition of flooding as defined by the policy.
- b. Determine how the water entered the building.
- c. Check for exterior and interior waterlines and provide the height of each in the report as well as photographs.
- d. Investigate and document all other evidence of loss.

## **E. IMPROVEMENTS AND BETTERMENTS**

If the insured is a tenant and has personal property coverage (Coverage B) under the Dwelling Form, the coverage extends to the insured's cooking stove, range, and refrigerator. Also, improvements made or acquired solely at the insured's expense are covered for up to 10 percent of the limit of liability for personal property. Improvements do not include cooking stoves, ranges, or refrigerators.

## **F. NON-WAIVER AGREEMENT**

When the adjuster identifies a problem that could affect coverage or result in denial, a non-waiver agreement must be secured from the insured. Failure to secure a non-waiver agreement might hinder the company from denial of claim when denial would be in order.

Examples of circumstances that require a non-waiver agreement include the following:

- 1. The policy has lapsed in coverage.
- 2. By action of the insured, the policy has become void.
- 3. More than one building is on a policy (except when scheduled), or there is more than one building at the property address. (Blanket coverage is not provided under the SFIP.)
- 4. The address of the risk is different from that listed on the policy.
- 5. The insured has not complied with the policy requirements.
- 6. Possibility of fraud.
- 7. Late reporting.
- 8. Any other situation for which the adjuster believes that a non-waiver agreement is needed.

## G. OTHER INSURANCE CLAUSE

### 1. Introduction

Where there is another flood insurance policy in addition to the Dwelling Form, General Property Form, or Residential Condominium Building Association Policy, and the other policy has a provision stating that it is excess insurance, and the SFIP policy limits do not equal the maximum amount available, the SFIP will pay the proportion of the loss that the amount of SFIP insurance purchased bears to the maximum amount of SFIP insurance available. When the proportion for a large loss exceeds SFIP limits plus the deductible, the SFIP limit is paid.

If there is other insurance in the name of a condominium association covering the same property covered by the SFIP, the SFIP is excess over the other insurance.

### 2. Examples

- a. Where there is another insurance policy in addition to the SFIP and the other policy has a provision stating it is excess insurance, the SFIP will be primary.

Loss: \$ 35,000			
SFIP Coverage	\$ 50,000	Deductible	\$ 1,000
Other Insurance	\$250,000	Deductible	\$50,000

The SFIP is primary and the other insurance is excess. The NFIP will pay \$35,000 loss minus the \$1,000 deductible.

- b. For any other flood insurance policy, the SFIP will be primary (subject to its own deductible) up to the deductible in the other flood policy. When the other deductible amount is reached, the SFIP will pro-rate for the remainder of the loss.

Loss: \$480,000			
SFIP Coverage	\$250,000	Deductible	\$ 5,000
Other Insurance	\$500,000	Deductible	\$15,000

The SFIP is primary up to \$15,000 of the loss. The SFIP \$5,000 deductible will be deducted from the amount for which the SFIP is primary. In this case, the result of the calculation is \$10,000. We will pro-rate the loss that exceeds the amount for which the SFIP is primary (\$15,000). The other insurance equation will be used to pro-rate the remainder of the loss (i.e., \$480,000 - \$15,000 = \$465,000).

SFIP Coverage	$\$250,000/\$750,000 = .3333 \times \$465,000 = \$154,984.50$		
Other Insurance	$\$500,000/\$750,000 = .6667 \times \$465,000 = \$310,015.50$		
SFIP Pays	$\$154,984.50 + \$10,000 =$		$\$164,984.50$
Total			$\$475,000.00$

- c. The limit of liability under the Residential Condominium Building Association Policy (RCBAP) depends on coinsurance by the insured.

Value of Building	\$1,500,000	
Other Insurance	\$1,000,000	Deductible \$200,000
SFIP Coverage	\$ 500,000	Deductible \$ 5,000
Insurance Required	\$1,200,000	(80% of \$1,500,000)
Loss	\$ 625,000	

Calculation of the coinsurance formula is as follows:

$$\frac{\$500,000}{\$1,200,000} = .4167 \times \$625,000 = \$260,437.50$$

\$260,437.50 is the RCBAP limit of liability.

The RCBAP will pay the primary share, \$200,000 - \$5,000 = \$195,000.

We will pro-rate  $\frac{\$500,000}{\$1,500,000} = .3333 \times \$425,000 = \$141,652.50$ .

The RCBAP will not pay \$336,652.50 (\$195,000 + \$141,652.50) but will pay up to \$260,437.50, which is its limit of liability under the coinsurance clause. If the loss exceeds the combined policy limits, the RCBAP deductible will disappear.

## H. OVERHEAD AND PROFIT

The overhead and profit percentage must be applied to the depreciation total and reflected in the ACV loss figure. Overhead and profit is not applied to the following items:

1. Carpeting
2. Insured's own labor
3. Outside service charges such as plumber, electrician, or appliance service calls
4. Repairs made by the insured (However, an allowance can be made for the insured's time and expense in purchasing materials, not to exceed 10 percent.)

Overhead and profit is warranted only if a general contractor has been hired to make repairs. The adjuster must document the general contractor's involvement. The NFIP Servicing Agent or the WYO company has the option of withholding the overhead and profit until the repairs are completed or until a contract is signed.

## I. POLLUTION DAMAGE

The SFIP covers direct physical loss by or from flood. Therefore, when flood waters contain pollutants or cause release of pollutants, the cleanup, repair, and mitigation costs associated with pollutants are covered under the General Property Form up to \$10,000.

## **J. PROOF OF LOSS REQUIREMENTS AND WAIVER**

The NFIP Proof of Loss form is required on all advance payments, as well as on any paid claim. However, the Proof of Loss may be waived on claims under \$7,500. When a Proof of Loss is waived, the insured's signature must be obtained on the NFIP Final Report form after the loss and the claim have been determined. A copy of the signed Final Report must be left with the insured. In the absence of a local witness, the adjuster may witness the form. If the loss is over \$7,500, the Final Report must still be completed and a Proof of Loss must be obtained.

Two forms are used for documenting losses. The Proof of Loss form is used for actual cash value claims. The Statement as to Full Cost of Repair or Replacement is used for replacement cost claims.

## **K. REPAIR VS. REPLACEMENT**

This is an area where adjuster improvement is needed. Everything that becomes wet is not necessarily a total loss. In these instances, the expertise of the adjuster is essential. Consideration must be given to the type of floodwaters involved (clear, muddy, fresh, salt, contaminated) and to the length of time the water remained in the building. Many buildings and contents items will respond to cleaning and need not be replaced. Some examples of "repair vs. replacement" are presented below.

### **1. Appliances**

Always consider having the item checked and serviced rather than replaced. Even if a service technician states that the appliance will break down in the future, do not total the unit out if it is working. Advise the insured that a supplemental claim can be presented within a reasonable period of time (30-60 days) if the insured can prove that the flood caused the breakdown.

### **2. Furniture**

Refinish, rather than replace, when possible.

On reinspections conducted weeks and months after losses, NFIP General Adjusters have discovered appliances and furniture that were still being used after they had been declared total losses in the adjustment.

The SFIP provides up to three loss settlement methods, depending on the policy form under which the risk is insured. See Dwelling Form and General Property Form VII.V. Loss Settlement and RCBAP VIII.V. Loss Settlement.

## **L. REPLACEMENT COST COVERAGE (RCC)**

For single-family residences, including doublewide manufactured (mobile) homes, RCC is applicable only to building coverage. Under the Residential Condominium Building Association Policy, a coinsurance clause requires the condominium association to insure its building to at least 80 percent of the replacement cost value, in order to avoid suffering uninsured losses and charging assessments to members.

## **M. RESERVATION OF RIGHTS LETTER**

A Reservation of Rights letter from the insurer to the insured is a notice that, even though the company is investigating the claim, certain losses might not be covered by the SFIP. By means of this letter, the company reserves its legal right to deny coverage later, as additional information about the loss becomes available.

## **N. RESERVES**

The reserving system mandates that reports must be timely and reflect true reserves. After the NFIP Preliminary Report, each subsequent report must address reserves. Separate reserves must be established on building and contents.

Any partial payment must be included in the indicated reserve. For example, if a loss is estimated at \$20,000 total, and a \$5,000 partial payment is being made, the reserves are \$20,000, not \$15,000.

## **O. SALVAGE**

On residential and small mercantile losses, adequate salvage credit is taken when the insured retains possession of totally damaged items. The contents inventory must specifically denote those items that have been considered salvageable and left with the insured. An approved professional salvor must be used to handle items of significant value.

Salvage on large commercial losses must be promptly identified and inventoried by an approved professional salvor. Salvage agreements are executed in all cases where the stock has been taken over by a salvage company.

Permission to secure the services of a salvor must be authorized by the WYO company or NFIP Servicing Agent.

## **P. SELF-PROPELLED VEHICLES**

Coverage is provided for self-propelled vehicles that service the described location and for self-propelled vehicles used to assist handicapped persons, so long as the vehicles are inside the building at the described location.

## **Q. SPECIAL LOSS SETTLEMENT**

Replacement cost applies to manufactured (mobile) homes or travel trailers if the dwelling is at least 16 feet wide and has an area of at least 600 square feet within its walls. The structure must also be the principal residence. If a single-family dwelling that is a manufactured (mobile) home or travel trailer and that qualifies for replacement cost is a total loss or is not economically feasible to repair, then the adjustment of the property will be the lesser of:

1. The replacement cost of the dwelling or 1.5 times the actual cash value, or
2. The building limit of liability.

Loss Settlement paragraph 1.a.(2) does not apply to manufactured (mobile) homes or travel trailers under Special Loss Settlement.

Only manufactured (mobile) homes and travel trailers as described in paragraphs 3.a.(2) and (3) qualify for Special Loss Settlement. All other manufactured (mobile) homes and travel trailers require Actual Cash Value Loss Settlement.

If we determine that the building is repairable, the loss will be settled according to the replacement cost conditions stated in Dwelling Form VII.V.2. and RCBAP VIII.V.2.

## **R. SUBROGATION**

The identification of subrogation lies initially with the adjuster assigned to the flood loss and, ultimately, with the claims representative responsible for the file. The adjuster must identify on the NFIP Preliminary Report, in the "Origin" section, the cause of loss, whether the loss was associated with failure of a dam, pumps, storm drain system, or other flood control measure, and whether a non-natural cause contributed to the loss. The Cause of Loss and Subrogation Report then must be completed.