

## Insurable Value ... What is the RIGHT amount of insurance ?

The concept of the word *value* is understood most clearly when it is combined with an adjective to define its scope. In doing so, we can differentiate the distinct applications of this terminology such as book value, market value, sentimental value and insurable value.

According to Article 2518 of the Quebec Civil Code "The insurable value is the amount at the risk of the insured when the policy attaches." To fully comprehend this legalese, the "Comments from the Minister of Justice", *Commentaires du ministre de la Justice (Tome II) – Le Code civile du Québec, Les Publications du Québec, éd. 1993*, can be summarized as follows:

*This article applies a principle to determine the insurable value of property. It consists of the value of the property for the insured at the time of signing the policy, and should consequently be equal to the loss that may arise. To this value are added insurance costs.*

Much clearer, right?

The insurance explanation is simple. For property insurance, the property to be insured must be evaluated for coverage purposes at the issuance of the policy. The amount of insurance is determined by the purchaser, the insured, who then declares the values he intends to insure.

It is important that both parties to the insurance contract understand the terminology utilized when discussing values; these can be summarized as follows:

- ◆ "Replacement Cost Value" - (RCV)  
This expression means the cost of replacement of the property insured at actual market value (new), with material of like kind and quality. There is no depreciation applied.
- ◆ "Actual Cash Value" - (A.C.V.)  
This expression means that in the event of a loss, the settlement will be a function of either the cost of repair or replacement (the lesser of the two) with material of like kind and quality, less a deduction for depreciation where applicable.
- ◆ The insured may also insure his property, with the exception of stock, for a stated amount. This is an amount of insurance agreed upon by both the insurer and the insured at issuance of the policy.

If the property is destroyed by a covered loss, the insurer will indemnify the insured for the stated amount without any need to negotiate this predetermined amount.

- ◆ With respect to business interruption insurance, the insurable value includes net income before taxes, fixed charges, additional charges, rental revenues, salaries (as per the formula chosen by the insured) along with certain additional expenses that may be incurred following a covered loss.

As a result, the insured could be penalized if the amount of insurance in force at the date of loss does not reflect the value to be applied in the insurance contract and if it does not respect the percentage of values required by the co-insurance clause of the property and business interruption wordings. In the event of a minor loss, the penalty may have only a minimal impact on the claim. However, when a major loss occurs, there can be a sizeable uninsured loss resulting from the application of the co-insurance clause. This danger was explained and examples were provided in the *Vezina Flash* of November 2009 (available on our web site).

We strongly recommend to our insureds that they have their property (building & equipment/ machinery) evaluated by a professional. With regards to business interruption insurance, the best recourse is to consult your accountant to assist in determining the appropriate values. Based upon these evaluations, you will be able to secure the proper amounts of insurance to cover your property and business interruption exposures.

The declared insurance value is the primary element utilized to negotiate a claim settlement. It is the portion of the claim that you control as a direct result of your preparation!

To obtain more information concerning your insurance or risk management requirements, we encourage you to contact your account executive at Vézina, whose knowledge enables them to offer you unsurpassed guidance for the choice of coverage that best meets your company's situation thereby protecting what counts most to you — the future of your company!

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Vézina assurances inc.

Vézina & associés inc.

4374 Pierre-De Coubertin Avenue  
Montréal, Québec  
H1V 1A6

Telephone : (514) 253-5221

1-877-253-5221

Fax : (514) 253-4453

[info@vezinainc.com](mailto:info@vezinainc.com)