Manager/Supervisor Risk Management
#116– 1/3/13
A twice weekly e-mail training for YCPARMIA members

TOPIC: PROPERTY – REPLACEMENT VS. ACV / SHARED LIMITS POLICY

The YCPARMIA property coverage is written on a replacement basis. There are basically two types of property coverage, Actual Cash Value (ACV), and Replacement. ACV is the depreciated value of the damaged property. For example a five-year-old television with a ten year life might be depreciated 50% from the value of a new television. Replacement coverage would pay for a new television of like kind and quality without any depreciation. One of the more interesting areas of adjusting involves computer losses; a new computer of like kind and quality can cost substantially less than the original purchase price of the damaged or stolen property. The replacement payment would be well below the original purchase price, but still sufficient to replace the old with new.

An issue that YCPARMIA faces is that even with replacement coverage the member only gets paid the depreciated actual cash value until the property is repaired or replaced. The member entity would sometimes get two checks. The first for the ACV, and then a subsequent check for the balance after proof of repairs or replacement are submitted. Note, it is the responsibility of the entity to sufficiently identify and document the damaged or missing property so that values can be established as the basis of the claim. The adjuster is there to aid in that process.

On a totally unrelated topic, YCPARMIA's excess property coverage is written on a "Shared Limits" policy. YCPARMIA has about $900M in insured property covered by an insurance policy with $600M limits. More than that, the limits are "shared" with other entities in the CSAC-EIA property program who have total values of almost $6B. The shared limit is basically an aggregate that caps the most that the insurance carriers would be called on to pay out under the policy. The lower limits result in a tremendous premium savings without much risk.

The theory is that the risk is geographically spread. A catastrophic fire in Yolo County will probably have no effect on other pool members in Alpine County, or Fresno County. If there is a covered event that impacts the entire north-east corner of the state we will probably have more pressing things to worry about. The "shared limits" policy is an example of risk assessment – the unlikelihood of a wide-spread disaster causing significant property damage to locations hundreds of miles apart justifies the increased risk with the resulting premium savings.

Next topic: Property Valuations