

Replacement Cost Less Depreciation Basis For Adjusting Fire Insurance

When adjusting a fire insurance claim when a building is destroyed, a common basis is to take the actual cash value at the time of the loss, deduct depreciation and pay the claim accordingly. The indemnity payable is limited of course by the face-value of the policy. But sometimes there may be a difference of opinion as to the actual cash value.

In the High Court of Ontario at Sudbury recently the court ruled that the loss in that case should be adjusted on the replacement cost less reasonable depreciation. The trial justice admitted that this method will not give an exact result but he regarded it as the only one that could be employed in the circumstances.

The plaintiff Mr. A. was the owner of three buildings insured

by the defendant company against fire.

A fire occurred on Feb. 26, 1946, and Mr. A. submitted proofs of loss amounting to slightly over \$50,000. The company admitted liability but disputed the amounts claimed and paid into court with its defense, slightly more than \$20,000.

Liability Undisputed

The trial justice pointing out that there was no dispute as to liability, the argument being only as regards the amount of damage suffered by the property-owner, stated the basis of calculation of the loss was the point at issue.

A useful basis of calculation he declared was either market value of the property at the time of the fire or its replacement cost. He quoted a previous decision to

show that the true loss may not necessarily be represented by either the market value or the cost of reinstatement. While neither of these are conclusive, normally they are satisfactory guides in attempting to arrive at the proper result.

In the case in question there was no evidence adduced as to market value, and the court assumed therefore that the cost of reinstatement was the only available measure of indemnity. The building under-consideration was an old building with many features that would prove detrimental on its disposal. This latter condition he believed could be taken care of best when calculating the amount of depreciation to be applied after replacement cost was ascertained.

The court declared that the two parties to the case had approached the matter from different viewpoints. The owner took the ground that the fire had effected a total loss to one building and that the insurance company should tear down what remained and build a comparable building on the same site.

Accordingly he instructed various contractors and subcontractors to give estimates on the removal of the old property and the erection of a complete new building.

The company, however, obtained estimates on the cost of replacing the damaged portions.

The two estimates, said the justice, represent two extremes, the real loss being a figure somewhat between.

Restoration Cost Allowed

The court allowed a cost of restoration of \$26,955 to which he added \$150 as cost of insurance on the work.

But the court also ruled that as the property-owner had personally obtained estimates of the subcontractors' fees he was entitled to 5% of the \$10,066 involved for subcontracts. He also allowed 2½% of the \$26,955 replacement cost, in lieu of architects' fees. The owner, he stated, would probably do the architect's work himself but was entitled to some compensation. This would bring the total cost of replacement to \$28,281. From this depreciation was deducted at the rate of 24%, the building being 20 years old.

The court disallowed a claim for the expense of re-wiring one of the other buildings, the fire having revealed to the authorities that the type of electric wiring was obsolete and should be replaced. A claim of \$900 for fire and smoke damage was allowed, however. A claim for loss of rentals in all three properties was also considered and the property-owner's entire loss set at \$27,960. However, owing to limitations in the face value of one of the policies the amount recoverable was reduced to \$24,830.

The decision indicates the lines which may be followed in assessing insurance indemnity. Undoubtedly the principles involved would not apply in many cases. But it indicates certain items which may be considered in calculating the total amount payable and certain items that would not be allowed.