

# ForumNews

NATIONAL TRUST FOR  
HISTORIC PRESERVATION®

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The Washington Trust for Historic Preservation's Stimson-Green Mansion is open to the public for tours and programs, and is available to rent. After switching to an insurance company more familiar with historic properties (National Trust Insurance Services), the organization obtained better coverage than before, including Historic Replacement Cost coverage, while paying less. Photos courtesy of the Washington Trust.

## GETTING THE RIGHT INSURANCE FOR YOUR HISTORIC BUILDING

By Genny Dill

Ask yourself these questions:

- If our historic building were severely damaged, but not enough to declare a "total loss," does our policy have high enough coverage limits to repair and restore the building?
- Do we have coverage if we lose our historic rehab tax credit and have to pay it back?
- Will our insurance company pay to hire

experienced restoration craftspeople if we have a fire?

- In the event of a total loss of our historic building, does our insurance company give us the flexibility to invest the insurance proceeds in a different historic building?

If your answer for each question is anything other than a solid "YES," you may need to make some changes to your insurance plan. Understanding, and obtaining, the right

insurance for a historic building can sometimes be confusing, but it doesn't have to be.

When you are insuring a historic building—whether it is a museum, theater, church, office, or home—there are some basics that will help you to ensure that your building will be around for future generations.

### IS REPLACEMENT COST REALLY REPLACEMENT COST?

Probably not the way you imagine it. Most standard insurance companies will give you their Replacement Cost coverage form, or Actual Cash Value coverage form, but do you really know what you are getting?

The general definition of Replacement Cost or Replacement Cost Value (RC or RCV) is the cost to replace with "like and kind quality" after a loss, without regard to depreciation. Sound good? Not for a historic building. Leaving your insurance company to define "like and kind quality" doesn't guarantee that your decorative moldings will be restored, or that the gargoyles on the roofline will be replaced with matching replicas. Most Replacement Cost policies will replace or repair your building using similar styles, as long as the materials are easily available and the labor costs meet their "standard guidelines." That can mean no restoration specialists, no artisan craftspeople, and no materials that aren't found at the local big box hardware store.

Actual Cash Value (ACV) is even worse. The general definition of ACV is the cost to replace with "like and kind quality" after a loss, and after deductions for "depreciation." Who decides what the depreciation is? The insurance company. Ugh!

There is a better solution, but you might have to check a few resources before finding it. Relatively new to the insurance market is Historic Replacement Cost. While there is not yet an industry-standard definition, the intention of Historic Replacement Cost coverage is to provide you with The Three

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R's after a loss: *Replacement, Repair, and Restoration.*

With the Historic Replacement Cost coverage form, you can rest easily, knowing that if your building suffers a catastrophe, your insurance company understands the building's special needs for repair and restoration.

### HOW MUCH COVERAGE DO WE NEED?

Whether your building is historic or newer, if you have not upgraded your building's coverage limit in the last five years, you are probably *severely* underinsured. Increased costs for labor, fuel, and the global imbalance of supply and demand for building materials have caused dramatic construction cost increases over the last five years, even for the basics. According to Marshall & Swift/Boeckh, a nationally recognized construction cost valuation model used for modern structures, construction costs increased 10 to 15% on the national average between 2004 and 2005. Some materials, such as plumbing supplies, increased by a dramatic 100%! Post-Katrina, Rita, and Ike, those price hikes are far more substantial, with some reports showing upward of 35% or more in increased construction costs between 2005 and 2008.

If your underinsured building also has a policy with a co-insurance clause, then you are in trouble. Most standard property policies contain a co-insurance clause, but unfortunately most people don't know what it means.

A co-insurance clause requires the policy holder to maintain a minimum limit of property insurance, in the form of a percentage of the actual cost to replace the property. Usually that percentage is 80 or 90%. Failure to maintain that limit of coverage allows the insurance company to decrease your claim payment by the same percentage as you are underinsured.

For example, if you have a policy with an 80% co-insurance clause, and a building that would cost \$1,000,000 to replace, you must have a *minimum* of \$800,000 in coverage on the building to avoid a penalty. If you have just \$500,000 in coverage then your claim payment would be decreased by 30%, paying you just \$350,000 on that

\$1,000,000 building. Not only would you not have had enough coverage in the policy, but now that reduced coverage limit is even further cut by the penalty. There have been cases in which a building was so drastically underinsured that the organization received just pennies on the dollar after the loss.

So how do you know how much coverage to have? While market values and real estate appraisals work for the sale and transfer of real property, they don't speak to the costs of building, rebuilding, or restoring the structure. Insuring your property for what you could buy or sell it for is never a smart idea, and will greatly reduce your ability to recover in the event of an underinsured loss. Cost estimates for new construction are also not appropriate for determining the replacement cost of a historic building, since they do not take into account the restoration or replication of damaged historic attributes such as intricately carved wood moldings, decorative panels, murals, etc.

The best way to determine the amount of insurance you need on your building is to obtain an insurance cost appraisal from an experienced appraiser with a background in historic restoration, or from a restoration contractor who provides this service. Don't forget to include costs for architect's fees, contractor fees, permits, and other services you will need during restoration.

Once you have your appraisal, contact your insurance agent to have your building's coverage limit increased to the appraised value.

### WHAT ELSE?

Now that you have the two most important pieces of the insurance puzzle handled, check your policy to make sure that you have coverage for:

**Outdoor Property:** Any outdoor items such as stone walls, fencing, gazebos, and heritage gardens should be insured. Most policies will automatically provide a very small amount of coverage, but also offer the option to increase the limits of coverage to suit your specific needs.

**Collections:** Desks, copy machines, and other typical business property is usually adequately insured by a standard Business

Personal Property or Contents coverage form. But art, antiques, and collections need to be insured using a Fine Arts or Inland Marine form. This specialized coverage will provide either Replacement Cost or Market Value coverage for the items, and can be tailored to include items in transit, on loan to another organization, and on loan to you.

**Historic Tax Credits:** In the event that an extensive loss causes reclamation of your historic tax credit, by way of ineligibility for the local, state, or federal historic register, Historic Tax Credit coverage provides protection. For the life of the credit or

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incentive, from the time of application to the end of the reclamation period—even if you have released that incentive to a third party—this coverage is essential. What many owners of historic property don't realize is that if the tax credit is reclaimed, your contractual obligation to the third party does not cease, and the third party will need to be repaid. Historic Tax Credit coverage can be difficult to obtain, as few insurers offer it, but is an option that is available through some insurance programs specific to historic properties.

*Liability Coverage for Staff, Volunteers, and Programs:* Learn more about this in a future *Forum News* article. Also visit the website of National Trust Insurance Services, [www.nationaltrust-insurance.org](http://www.nationaltrust-insurance.org).

### HOW DO WE CHOOSE AN INSURANCE AGENT?

The fact is, many insurance agents are unprepared and lack the experience needed to properly insure a historic property. Work with an agent who has a track record of insuring historic properties, as well as providing risk management solutions for nonprofit organizations. An agent experienced with special events, liquor liability, fine arts, and other coverage important to your organization will help you to avoid pitfalls that most standard policies include.

Discuss your operations and programs openly with your agent, and work with him/her to come up with solutions that will not only properly protect your building and organization, but won't break the bank. ■

National Trust Insurance Services LLC—an affiliated entity of the National Trust for Historic Preservation and a partner of the League of Historic American Theatres—has extensive experience insuring historic theaters, small businesses, preservation organizations, historic sites, individual historic homes, Main Streets, and other historic and vintage properties. For more information about NTIS or its products, please call (toll free) 866-269-0944.

Genny Dill has worked in the property and casualty insurance market for nearly 13 years, the first half in her native state of California. She joined National Trust Insurance Services in 2004 and has been providing insurance coverage, technical assistance, education, and other insurance services to historic property owners, Main Streets, preservation organizations, and historic theaters nationwide.

### HINTS FOR HOMEOWNERS

**Increase your deductible.** Most insurance companies give significant premium credits for higher deductibles. Nothing jeopardizes coverage availability and price stability quicker with insurers than several small claim submissions. Increasing your deductible to \$1,000, \$2,500, or \$5,000 is a great way to offset the increased premiums associated with insuring your building properly.

**Insist on Guaranteed Replacement Cost coverage** with an insurance company whose claims philosophy allows for the restoration (not just replacement) of your historic home. This would cover you for the full cost of rebuilding, or restoring, regardless of policy limit. Guaranteed Replacement Cost is essential for full protection. Some insurers no longer offer this coverage, or sell it at 115% or 125% of the policy limit, but it is available. Ask your agent to help you find out who offers Guaranteed Replacement Cost for historic homes in your area.

**Consolidate policies with one insurer**, when possible, to achieve package discounts, avoidance of coverage gaps, and easier administration, particularly if common effective dates are used.

**"Itemize" significant valuable items** such as jewelry, art, antiques, silver, cameras, and musical instruments on a Fine Arts floater, to avoid policy sub-limits and deductibles, as well as to obtain breakage coverage for fragile articles and agreed value for your valuables. Fine Arts coverage is broadly defined, with most insurers able to include paintings, sculptures, oriental rugs, folk art, multi-media art, antiques, and other items of rarity or significant value that do not otherwise have a coverage schedule (such as furs). This coverage is typically very inexpensive to purchase.

**Take advantage of credits.** Insurers offer many "credits" that lower the cost of insurance for homeowners who have taken steps to reduce risks. Consider installing central station monitored fire and burglar alarms. Credits are also available for buildings in gated communities, that are built or renovated with masonry construction, and that have had system upgrades. "Loss free discounts" may be given to clients who have not made a claim in a specified time period, usually three years.

**Purchase "All Risk" coverage on dwelling and contents.** Many homeowners' policies are written on a named peril basis, which provides more restrictive coverage.

**Choose a quality independent agent or broker** who has experience insuring historic properties and can offer you sound advice. Your insurance agent is a financial advisor whose job is to protect what matters most to you in the event of a loss.

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