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Insights for Your Industry® — **Hotels**



PROTECTING YOUR PROPERTY

## Ordinance or Law Insurance — Are You Covered?

Does your hotel carry ordinance or law insurance? The time to answer that important question is before a loss rather than after it has occurred. The absence of this coverage can significantly increase a hotel's potential exposure to loss. Here's why.

Over time, building codes and ordinances are updated to reflect new standards in construction. These changes may concern fire safety, energy efficiency, or structural integrity of the building. Buildings already constructed when these regulations are established are typically permitted to be used and occupied even though they may not conform to the current code or law. However, in the event an existing hotel building is extensively damaged say from a tornado, hurricane, or fire, cities or municipalities ordinarily require that the structure be rebuilt to conform to the current building codes.

The problem is that most commercial property insurance policies exclude or significantly limit coverage for damage caused by the enforcement of an ordinance or law that regulates construction, use or repair of the property, including demolition and the cost of removing debris. This can easily increase the hotel's potential loss. For example, the hotel may lose the value of the undamaged portion of the building and incur the cost of demolition of the undamaged portion as well as the cost of removing debris. Even where demolition is not required by code, a building's reconstruction may require updated wiring, heating or plumbing systems, sprinkler systems or even additional fire exits.

Although standard property insurance forms usually provide some limited coverage, that may not be sufficient for many buildings. Fortunately, higher limits and broader coverage can be provided by an *ordinance or law coverage endorsement* (Form CP 0405).



The endorsement provides three coverages: coverage for the reduction in value of the undamaged portion of the building that must be demolished when required by the ordinance; coverage for the cost of demolishing the undamaged portion of the building; and coverage for the increased cost to replace or repair the building so that it conforms to the ordinance.

Another consideration concerns the increased length of time it may take to reconstruct the building to conform to the ordinance or law. An endorsement is available that extends business interruption and/or extra expense coverage to reflect the increased period of suspension of operations caused by the enforcement of building codes. That endorsement is *ordinance or law – increased period of restoration endorsement* (CP 15 31).

Hotel management should discuss with their insurance agent or broker the increased exposure brought about by the ordinance or law exclusion or limitation, and make sure that they understand that exposure so that they can intelligently decide whether to purchase the additional coverage that is available to them.