

## Functionally Valuing Older Business Property

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Businesses that have been successful for decades owe part of their longevity to doing things the right way, including making a significant effort to take care of their property. While maximizing the use of every asset, it also raises a coverage issue. Aging equipment may have reached the point where it:

- Is functionally obsolete
- May be a type of equipment that is no longer made and/or
- Has been replaced with more effective, functional and technologically advanced equivalents.

This issue is not a problem when the equipment continues to operate and can be maintained. However, such situations are difficult when trying to insure such property. A typical insurance policy would not have the option to respond to the loss properly. However, a commercial property policy can be modified with a form that may make coverage more practical. One form, called "Functional Personal Property Valuation," changes a policy so that the regular policy conditions on valuing a loss and coinsurance don't apply. This is a significant change because those provisions work under an assumption that the insured property may be routinely replaced.

Coverage that has been changed to deal with older equipment recognizes that the insured firm may have to be more concerned with repairing damaged, older equipment or finding an equivalent substitute. A policy with a functional valuation provision is likely to offer the additional option of paying an amount equal to the damaged or destroyed property's market value that it held just before their loss. Other features are requirements that any repairs be done quickly and that any replacement property be at the same site and for the same use of the property that was lost or destroyed. A coverage modification is also likely to add terms with special definitions, such as "replacement" or "functional equivalent," or "market value."

A policy that has been altered in order to value certain property on a functional settlement basis should result in smoother claims handling and a better loss to post-loss transition. Arranging for such coverage may also spur a buyer to identify possible sources for replacing his vulnerable, older property.

If your concern is one that may be dependent on older equipment, it may be past the time that you need to discuss your particular coverage need with a knowledgeable insurance professional.

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