

**ALABAMA DEPARTMENT OF INSURANCE
INSURANCE REGULATION**

CHAPTER 482-1-150

**ESTIMATION OF REPLACEMENT COST
OF INSURED DWELLINGS**

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482-1-150-.01 Purpose. The purpose of this chapter is to provide requirements for property insurers to periodically inform their insureds of their option to request a change to their Dwelling Coverage Limit. This chapter shall not be interpreted as creating an obligation, or duty, on behalf of insurers to select Dwelling Coverage limits for the insured.

Authority: Commissioner of Insurance

Statutory Authority: Ala. Code §§ 27-2-17, 27-12-2

History: New November 9, 2010, effective November 22, 2010

482-1-150-.02 Authority. This chapter is promulgated by the Commissioner of Insurance pursuant to the general authority in Ala. Code § 27-2-17 to address trade practices in the business of insurance.

Authority: Commissioner of Insurance

Statutory Authority: Ala. Code §§ 27-2-17, 27-12-2

History: New November 9, 2010, effective November 22, 2010

482-1-150-.03 Applicability. This chapter applies to Insurers as defined in 482-1-150-.04(f).

Authority: Commissioner of Insurance

Statutory Authority: Ala. Code §§ 27-2-17, 27-12-2

History: New November 9, 2010, effective November 22, 2010

482-1-150-.04 Definitions. For purposes of this chapter:

(a) *Dwelling Coverage* means property insurance, typically designated as “Coverage A” in a homeowner insurance policy (and not including Coverage B – Other Structures), written by an Insurer on a dwelling used principally or primarily as a private residence. Dwelling Coverage does not include property insurance covering mobile or manufactured homes, condominiums, or commercial structures, or coverage under renters’ policies.

(b) The *Dwelling Coverage Limit* is the limit, expressed in dollars, of the Insurer’s liability for Dwelling Coverage as expressed for Coverage A in the declaration page of a policy.

(c) *Replacement Cost* is the estimated cost to rebuild the dwelling using like materials and construction at current labor and material costs, and possibly including, but not limited to, the cost of debris removal, building permits, architect fees, and compliance with building ordinances or laws.

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(d) The *Estimated Replacement Cost Method* is the methodology used by the Dwelling Owner, Insurer, or on behalf of the Insurer for calculating or changing the Dwelling Coverage Limit.

(e) The *Dwelling Owner* is the person or persons identified as the named insured in a policy including Dwelling Coverage.

(f) An *Insurer* is an insurance company authorized to provide property insurance including Dwelling Coverage in the State of Alabama.

(g) *Owner Information* is information about the insured structure(s) obtained by the Insurer from a Dwelling Owner or other sources that is used by the Insurer in applying the Estimated Replacement Cost Method to select the Dwelling Coverage Limit.

Authority: Commissioner of Insurance

Statutory Authority: Ala. Code §§ 27-2-17, 27-12-2

History: New November 9, 2010, effective November 22, 2010

482-1-150-.05 Requirement for defined Estimated Replacement Cost Method.

Within the time specified in 482-1-150-.07, an Insurer shall have in effect and adhere to an Estimated Replacement Cost Method which complies with the requirements of this chapter and is in a format that can be made available to the Commissioner in conjunction with an examination or otherwise upon request.

Authority: Commissioner of Insurance

Statutory Authority: Ala. Code §§ 27-2-17, 27-12-2

History: New November 9, 2010, effective November 22, 2010

482-1-150-.06 Required elements of the Estimated Replacement Cost Method. The Estimated Replacement Cost Method used by an Insurer shall include the following:

(a) A description of the method(s) used by the Insurer to establish the initial Dwelling Coverage Limit or to change the Dwelling Coverage Limit at renewal. At the Insurer's election, the methodology may employ a commercial computer software program such as costing programs offered through (strictly by way of example, not endorsement) Marshall & Swift®/Boeckh, Xactware®, e2Value®, or other third-party providers; an Insurer-developed proprietary computer software program; a property appraisal, inspection, or survey; or any other method or combination of methods used by the Insurer for establishing or changing the Dwelling Coverage Limit.

(b) A process by which the Insurer, at each renewal:

(1) shall clearly notify the Dwelling Owner of the change in the Dwelling Coverage Limit, if any;

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(2) shall clearly notify the Dwelling Owner of its procedures for allowing the Dwelling Owner to request changes to the Dwelling Coverage Limit at any time during the policy term;

(3) shall request the Dwelling Owner to provide updated Owner Information if the Dwelling Owner has recently modified, updated, or remodeled the Dwelling or believes the renewal Dwelling Coverage Limit to be inappropriate;

(4) shall recalculate, or change at Dwelling Owner's request, the appropriate Dwelling Coverage Limit in the event that the Dwelling Owner provides new Owner Information which would result in a change in the Dwelling Coverage Limit, unless the Insurer has reasonable grounds to believe that the information is not accurate;

(5) shall determine by application of its underwriting guidelines whether to modify the Dwelling Coverage Limits accordingly and shall promptly inform the Dwelling Owner of its decision in that regard (the Insurer will be expected to justify its decision rejecting any cost estimate provided by the Dwelling Owner in the event of inquiry by the Dwelling Owner or the Department of Insurance);

(6) shall communicate such revised Dwelling Coverage Limit to the Dwelling Owner; and

(7) shall subsequently endorse or replace the policy, if required, to reflect the revised Dwelling Coverage Limit.

Authority: Commissioner of Insurance

Statutory Authority: Ala. Code §§ 27-2-17, 27-12-2

History: New November 9, 2010, effective November 22, 2010

482-1-150-.07 Implementation schedule. An Estimated Replacement Cost Method meeting the requirements of this chapter shall be put in effect and its use commenced on a date specified by the insurer, and the Method shall be applied to all new and renewal policies written after that date. The effective date specified by the insurer shall be not later than twelve (12) months after the effective date of this chapter.

Authority: Commissioner of Insurance

Statutory Authority: Ala. Code §§ 27-2-17, 27-12-2

History: New November 9, 2010, effective November 22, 2010

482-1-150-.08 Severability. The provisions of this chapter are severable. If any provision or the application thereof to any person or circumstance is held invalid for any reason, the invalidity shall not affect the other provisions or any other application of this chapter which can be given effect without the invalid provisions or application.

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Authority: Commissioner of Insurance

Statutory Authority: Ala. Code §§ 27-2-17, 27-12-2

History: New November 9, 2010, effective November 22, 2010

482-1-150-.09 Effective Date. Subject to the implementation schedule in Rule 482-1-150-.07, this chapter shall become effective upon its approval by the Commissioner of Insurance and upon its having been on file as a public document in the office of the Secretary of State for ten days.

Authority: Commissioner of Insurance

Statutory Authority: Ala. Code §§ 27-2-17, 27-12-2

History: New November 9, 2010, effective November 22, 2010