

## **Property Coverage Issue Gym Floors – Coverage vs. Betterment**

### **Cause of loss:**

Water event that resulted in damage to a portion of a District's gymnasium wood floor.

### **Coverage Issue:**

Repair / replacement to the damaged part of the floor is not at question, however, the District is asserting that the entire gymnasium floor should be refinished at the JIF's expense so that the entire surface is consistent.

Since the JIF's obligation under the SPELL Coverage Document is to **indemnify** the Member by repairing or replacing only the damaged or destroyed property, the act of refinishing the entire floor would actually put the member in a better position than they were before the loss (which is contrary to the principles of insurance and creates a moral hazard).

Secondly, and most importantly, it is not the intention of the Coverage Document Property Section to cover wear, tear and gradual deterioration that are part of a property policy's maintenance exclusions. These exclusions serve to eliminate from coverage those losses which could be avoided through normal property maintenance (in this case, refinishing the gymnasium floor in a timely manner before it reaches the point where its usefulness is compromised) and they differ substantially from the elements that exist in "pair and set" and other types of consequential loss provisions. Certainly, the District would not have requested the JIF to refinish their gymnasium floor had there been no loss and the fact that there was a loss does not compel the JIF to perform the maintenance that is ultimately the District's responsibility.

### **Considerations:**

1. Maintaining rational coverage expectations.
2. Flexibility to manage unique claims, but potential cost impact that exists must be recognized.
3. Creating potential conflicts with reinsurance partners who are not required to extend coverage beyond scope of existing reinsured document.