COLORADO
Department of Regulatory Agencies
Division of Insurance

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Commissioner of Insurance

Bulletin B-5.28
Equitable Payment of Claims Resulting from Natural Disasters

I. Background and Purpose

The purpose of this bulletin is to provide guidance to insurers of property destroyed by catastrophic natural disasters.

Bulletins are the Division's interpretations of existing insurance law or general statements of Division policy. Bulletins themselves establish neither binding norms nor finally determine issues or rights.

II. Applicability and Scope

This bulletin is intended for all regulated insurance entities issuing homeowner insurance policies in the areas affected by catastrophic natural disasters. For the purposes of this bulletin, catastrophic natural disaster shall have the same meaning as "Catastrophic disaster" as defined in § 10-2-103 (1), C.R.S.

III. Division Position

The Colorado climate is such that wildfires, tornados and other natural disasters can devastate a community without warning. Natural disasters present additional challenges and limitations, which are unpredictable. The availability of contractors and materials, as well as inclement weather restrictions, may prevent homeowners from beginning the rebuilding process immediately. Additionally, traditional methods of determining the cost to rebuild may not adequately consider special characteristics of the location or architecture of these properties.

Therefore, following a catastrophic natural disaster event, the Division encourages insurance companies consider the following:

- While some insurance contracts offer more, all homeowner's insurance replacement cost policies include at least twelve (12) months of Additional Living Expense coverage. Insurers should provide full transparency and disclosure with regard to the extent of available coverage. If a policyholder approaches his/her coverage limit, the insurer should provide adequate and timely information before coverage is exhausted.

- A policy that contains replacement cost provisions entitles the policyholder to recover any applicable depreciation amounts when the covered property is repaired or replaced. A policy contract may limit the amount of time a policyholder has to complete repairs or replacement in order to receive the recoverable depreciation. If a policyholder makes a good faith effort to adhere to the policy provisions, and requests an extension within the applicable time period, the insurance company should consider a reasonable extension of time to allow the policyholder, with a replacement cost provision, to repair or rebuild the covered property and receive the applicable replacement cost value.

- In accordance with C.R.S. 10-4-110.8 (11) (a), in the event of a total loss of an owner-occupied primary residence that was furnished at the time of loss, the insurer shall offer the policyholder a minimum thirty (30) percent of contents coverage without completing an inventory. In order to receive up to the full value of contents the policyholder must complete the inventory.

- In accordance with C.R.S. 10-4-110.8 (11) (c) (I) and (II), an insurer shall:

    - Allow the policyholder 365 days after a total loss claim to submit an inventory of lost or damaged property; and,
    - Allow the policyholder 365 days from the expiration of the Additional Living Expense coverage to replace property and receive recoverable depreciation.

- Settlement of claims shall be handled in accordance with Colorado insurance regulation 5-1-14. Provided the insured has complied with the terms and conditions of the policy contract, the insurer shall make reasonable attempts to settle the claims promptly, allowing policyholders to repair or replace dwellings, other structures or personal property in a timely manner.

- Use of estimating software programs is common in determining the cost of rebuilding a dwelling. The insurer should consider other factors that may not be included in the estimating program. For example, the slope and building grade of the land, the specific attributes of the insured home and availability of labor and materials. These factors will generally impact the actual cost to rebuild. Insurers should also adjust pricing to reflect the specific region the insured property is located, taking into account local conditions that may affect costs. An insurer's refusal to consider additional information related to the cost to rebuild a particular dwelling may constitute a violation of § 10-3-1104 (1) (h) (IV), C.R.S.

- Sections 10-4-120(3)(c) and (f), C.R.S., requires insurers pay the prevailing competitive market price for the geographic area in which the loss occurred.

IV. Additional Division Resources

Colorado Division of Insurance
Property Casualty & Title
Consumer Services Section
1560 Broadway, Ste 850
Denver, CO 80202
Tel. 303-894-7499
Internet: http://www.dora.state.co.us/insurance

V. History

- Effective January 31, 2011
- Revised Effective June 19, 2012
- Revised Effective September 7, 2017