

IIANC has been advised by members that there are some lenders that are not asking specifically for the Replacement Cost Estimator (RCE) and are instead asking the agent to put in writing that a RCE was used to estimate replacement value and the property was insured to 100% of replacement cost.

The lender is essentially asking the agent to put into writing something that crosses into **guaranteeing insurance adequacy**, which is a major **E&O red flag**. Here's some context and best practices:

Why This is a Problem

- **Replacement Cost Estimator (RCE):** Agents often use valuation tools to help guide insurance-to-value discussions, but they are **advisory only**. They are not guarantees of what it will actually cost to rebuild.
- **100% Insured:** Any written statement that the building is “insured at 100%” implies the agent is certifying that the limit will fully cover all replacement costs—even in the face of inflation, supply chain disruptions, or building code changes. That effectively makes the agent the guarantor, not the insurer.
- **E&O Exposure:** If the building is underinsured at the time of loss, the agent's written statement could be interpreted as a binding guarantee, creating direct liability.

Precedent and Industry Practice

- Agents **do not** provide written guarantees of “100% insured.”
- Most carriers issue a **Statement of Value (SOV)** or include coverage terms on the **declarations page**, which is the industry standard evidence.
- Some carriers will confirm that a valuation tool was used, but they stop short of guaranteeing adequacy.
- The **ISO CP 00 10** and homeowners forms themselves define coverage as “up to the policy limit,” not a promise that the limit equals replacement cost.

Recommended Response / Alternatives

Here are a few safe ways to respond:

1. Refer to the Policy

- “The policy provides replacement cost coverage up to the policy limit of \$X as shown on the declarations page.”
- This avoids personal certification.

2. Acknowledge Use of a Valuation Tool (Without Guarantee)

- “In determining coverage limits, the agency utilized an industry-accepted replacement cost estimator as part of the underwriting process. However, neither the agency nor the insurer guarantees that the policy limits will be sufficient to rebuild in the event of a loss.”

3. Redirect to Carrier

- If the lender insists, advise that any such certification can only come directly from the insurance carrier in the form of a letter or endorsement.

Practical Advice for the Agent

- **Do not issue “100% insured” statements.**
- Provide the **dec page** and, if necessary, a statement that a valuation tool was used, but include a **disclaimer**.
- If the lender pushes harder, escalate to the carrier underwriter and request a carrier-issued letter.

👉 A template the agent could consider:

“We used a replacement cost estimator as part of the process to establish policy limits. The current policy provides replacement cost coverage up to the policy limit of \$X, as reflected on the declarations page. Please note that neither the agency nor the insurer guarantees that the limit selected will represent the exact cost to replace the building in the event of a total loss.”