

# Difference-in-Conditions Insurance



These days, floods, earthquakes and similar catastrophes are common threats to a business's property. In fact, according to the Insurance Information Institute, natural disasters cause billions of dollars in property losses in the United States each year.

While commercial property insurance is an essential component of a business's risk management portfolio, it can exclude coverage for floods and earthquakes. To address potential gaps in coverage, many businesses secure difference-in-conditions (DIC) insurance. This Coverage Insights provides an overview of DIC insurance, including what it is and what types of businesses can benefit from such a policy.

### What Is DIC Insurance?

Put simply, DIC insurance is intended to supplement a business's property policy, offering protection against perils not typically accounted for in standard coverage. It's commonly used to broaden protections, providing additional limits of coverage for certain perils (i.e., insuring the difference between covered causes of loss under a commercial property policy and covered causes of loss under a DIC policy).

Most DIC policies can cover income loss and other expenses that result from physical damage to the insured's property. Notably, DIC insurance may pay losses based on either the actual cash value or the replacement cost of the damaged property.

The specific perils covered under DIC insurance will differ depending on the policy language. However, many insureds use DIC coverage to protect their business from

major natural disasters, including floods, mudslides and earthquakes.

DIC policies are typically provided as a separate policy and are very customizable. As a result, DIC policies will vary depending on an organization's needs and the insurance carrier writing the policy. Still, DIC policies have similar features—features businesses should be aware of before purchasing coverage:

- **Covered perils**—Similar to standard commercial property insurance policies, DIC coverage can be written on either a named-perils or all-risk basis. If written on a named-perils basis, DIC insurance only provides coverage for perils explicitly specified in the policy. If written on an all-risk basis, DIC insurance provides coverage for any loss that isn't specifically excluded in the policy language. When securing a policy, it's important for businesses to work alongside a qualified insurance broker who can explain what is and isn't covered. Additionally, insureds should seek clarification on what constitutes as a flood or earthquake under their DIC insurance, as definitions of these perils can vary between policies.
- **Limits**—There will typically be separate limits for floods and earthquakes under DIC policies. The types of limits within a policy will vary, but will likely include a combination of per-occurrence and aggregate limits:
  - Per-occurrence limits define how much

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- a policy will pay for any one incident or claim.
- Aggregate limits define how much a policy will pay over the policy's duration.
- **Deductibles**—In addition to different limits, DIC policies will have a set deductible the insured must meet before coverage kicks in. DIC deductibles are often a percentage of the value of the insured property. The deductible may apply to every property and location listed in the policy, or it may apply to each building and location separately.

Remember, because there is no single standard policy, DIC insurance policies can vary in terms of how they are structured. Be sure to review policy language alongside a qualified insurance professional.

### Who Needs DIC Insurance?

Because standard commercial property insurance often excludes certain natural disasters, DIC coverage is crucial for businesses located in flood- or earthquake-prone areas. In particular, DIC coverage may be a good fit for businesses if:

- The commercial property insurer is unable or unwilling to provide the business with insurance for certain perils.
- The business's commercial property insurer offers insurance for certain perils, but the premium is outside the organization's budget.
- The business has insurance for natural disasters but needs additional limits.

To learn whether DIC insurance is a good fit for your organization, contact SCS Agency Inc today.