

# The Longitude guide to... Removal of Debris (ROD) Cover

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INSURANCE

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Imagine the property you own is destroyed by fire, a storm event or an earthquake and needs to be rebuilt.

Now imagine the cost to rebuild your property being underestimated and the additional costs for rebuilding not being calculated correctly. It's likely the emotional disruption to your life would only be matched by the hit to your bank balance.

However, before you can even get to fixing the property, you're going to have to find a solution for removing and disposing of the debris and damaged material in and around it. This is where Removal of Debris (ROD) cover comes into play.

## What is ROD?

ROD is the cost associated with removing and disposing of damaged or undamaged property so a building can be rebuilt after an insurable loss.

Some areas of insurance are fairly straight forward while others have a high degree of subjectivity. Cover for ROD falls squarely into the subjective category. ROD is required by strata legislation Australia-wide to form part of the overall building sum insured. It's also often a prerequisite for rebuilding or repair works on a building.

The difficulty in selecting the right ROD cover comes from the insured needing to have a strong understanding of the cover and to declare the correct building sum insured figure to the insurer.



## Types of ROD

The majority of property and strata insurance policies provide limits for ROD and they're usually comprised of one or a combination of three basic elements:

- **Inbuilt percentage limits** – does not exceed the sum insured amount and is based on the Building Sum Insured or BSI limit.
- **Limited additional amounts** – usually a percentage amount in addition to the sum insured.
- **Variations** – such as unlimited ROD limits in addition to the BSI. This type of cover is offered by very few insurers.

Calculating an accurate ROD figure isn't as simple as adding a percentage. It requires the consideration of the building's age, heritage status, contaminants, proximity to main roadways and shopping districts and any constraints that may apply to ROD works being carried out. Adding to the difficulty is many insureds only having incomplete or incorrect information about key elements of their property, such as building replacement value, when seeking ROD cover.

## Dealing with escalating costs

The two key contributing factors to cost escalation for ROD are building age and presence of contaminants.

Most properties built in Australia up to the 1980s will have some form of asbestos contained in the construction material. It's also present in some more modern properties. Asbestos is problematic due to the difficulty of removing it, particularly if a building is damaged by fire. High heat causes normal asbestos cement sheets to expand and explode which changes their classification from non-friable (Class B) to friable material (Class A).

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**Asbestos debris (or any asbestos material that is not fixed or installed) has previously been covered by the Dangerous Goods Order 2007. This, as of 18 June 2017 will now be covered in the OH&S Regulations 2017.**  
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This change in classification is just one element that needs to be taken into account when assessing ROD requirements. Other considerations include:

- Is the property heavily laden with asbestos? A complete site clearance to ground level can incur a 25-30% increase in ROD costs.
- If soil contamination occurs it can lead to additional costs to cover a 50mm-100mm soil scrape.
- Can some areas be cleared of asbestos materials and decontaminated to avoid a complete site clearance?
- Is the area residential, commercial or near a school or public area?
- Would removal of debris works need to be undertaken outside of normal working hours?
- Is the area close to footpaths or roads that need traffic management set up?
- Is a hygienist required to conduct air monitoring and clearances? This process can cost more than \$1,500 per day.

The abolition of asbestos occurred in 2003 and properties built after the 1980s are less likely to contain it. Despite this, instances of asbestos discovery in modern buildings still occur infrequently. For instance, the ABC reported the detection of asbestos in building materials imported from China being discovered in Perth Hospital in 2016. Other building contaminants in the market include aluminium composite panelling and expandable polystyrene (EPS).

## The danger of ROD limits

The vast majority of strata insurance policies include allowances for ROD, usually limited to approximately 10% of the BSI.

ROD limits can pose a significant problem to unit holders in the event a policy is triggered. Variables such as debris containing hazardous materials, requirements for specialty equipment in removals or traffic constraints around the site can impact the cost of ROD. These costs have the potential to exceed ROD cover limits with the sundry charges then passed on to the unit holders.

In these situations, unit holders then need to decide whether to continue with the ROD or to forfeit the rebuilding or replacement of the property. Unit holders recouping their losses through legal action against the Strata Committee Members or Strata Manager is a distinct possibility in these situations.

## Steps to take

There are key steps you can take to ensure you make the correct allowances for ROD costs.

### 1. Appoint a professional valuer

Give a professional valuer a clear brief on the valuation requirements of the property. This should include engaging a quantity surveyor to report on the replacement value of the property. Quantity surveyors determine all the materials currently within a property and calculate the correct costs to remove these. This will be key in helping you make provisions for materials such as asbestos, aluminium composite panelling and EPS.



### 2. Increase the Building Sum Insured total on renewal

Most insurers offer a suggested renewal option based on a percentage increase of the previous year's cover. When it comes time to renew your strata policy, discuss an increase in BSI with your insurer. The difficulty of this request is the BSI figure is usually supplied when the policy is taken out. Additionally, the percentage required for annual indexation is arbitrary and an insurer's systems are not likely to have variable calculation methods to correctly pick this up every year. Despite these caveats, it's an important conversation to have.

### 3. Select an insurance policy with no ROD cost restrictions

All strata legislation requires the strata committee to insure for the full Reinstatement/Replacement value of the Buildings including the provision of ROD. However, if a property isn't modern and has not been valued recently, or the strata committee has not taken up the option of "Suggested Renewal", then it may be under insured. Selecting an insurance policy with unrestricted cover for ROD allows for an escalation in these costs.

## Want to discuss ROD? Contact our team

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