



**The Supreme Court of Canada interprets an insurance policy as excluding the extra costs required to comply with conservation regulations when rebuilding a house.**

In this case, a house was severely damaged by a flood and was declared a total loss. The house was located in an area where development activities are regulated by a conservation authority, a public body that protects and manages natural resources. Rebuilding the house required extra work to meet the conservation authority's requirements.

The homeowners were insured under a standard form policy, which covers a base amount in case a house is damaged or destroyed. Policies usually list what costs the insurance company will and will not pay. Exclusions are costs that the insurer does not have to pay. This policy excluded extra rebuilding costs incurred from complying with laws or regulations (compliance costs).

The policy also included a guaranteed rebuilding cost endorsement. An endorsement is an addition to an insurance policy that changes how coverage works. This guaranteed rebuilding cost endorsement allows the homeowners to recover the costs of rebuilding their house even if higher than the base amount covered by their insurance policy.

The insurance company agreed to pay for most of the rebuilding costs but not the extra needed to comply with the conservation authority's requirements. The homeowners asked the courts to declare that the guaranteed rebuilding cost endorsement required the insurance company to pay all rebuilding costs, including the compliance costs.

The judge from the Superior Court of Justice agreed with the homeowners. The Court of Appeal allowed the appeal, agreeing with the insurance company. The homeowners appealed to the Supreme Court of Canada.

The Supreme Court dismissed the homeowners' appeal.

**The guaranteed rebuilding cost endorsement does not override the compliance costs exclusion.**

Writing for the majority, Justice Rowe explained that insurance policies must be read as a whole and that the language of this policy is clear. While the guaranteed rebuilding cost endorsement increases the amount that can be paid to rebuild the house, it does not override the compliance costs exclusion. The policy clearly excludes the costs of the extra work required by the conservation authority. As a result, the insurance company is not required to pay the extra compliance costs.

Justice Rowe also stated that a specific insurance-related legal principle called the doctrine of nullification did not apply. That doctrine prevents insurance policies from being interpreted in a way that would defeat their very purpose. Here, the policy's purpose was not defeated because the rebuilding costs are covered, even though the extra compliance costs are excluded.

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**Breakdown of the decision:** *Majority:* Justice [Rowe](#) dismissed the appeal (Chief Justice [Wagner](#) and Justices [Martin](#), [Kasirer](#), [Jamal](#), [O'Bonsawin](#) and [Moreau](#) agreed) | *Dissenting in part:* Justice [Karakatsanis](#) would have allowed the appeal in part | *Dissenting in part:* Justice [Côté](#) would also have allowed the appeal in part, for other reasons.

**More information:** [Decision](#) | [Case information](#)

**Lower court rulings:** [Application](#) (Ontario Superior Court of Justice) | [Appeal](#) (Court of Appeal for Ontario)

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