

ACV versus Stated Amount versus Guaranteed value

There are several different methods by which your insurance company may calculate the amount it will pay you for a loss. Payment based on the replacement cost of damaged or stolen property is usually the most favorable figure from your point of view, because it compensates you for the actual cost of replacing property. If your camera is stolen, a replacement cost policy will reimburse you the full cost of replacing it with a new camera of like kind. The insurer will not take into consideration the fact that you ran three rolls of film through the camera every day for the last two years, causing a considerable amount of wear and tear.

Actual Cash Value and Stated Amount are terms referring to the method used to value a piece of equipment and are quite different from one another. This month I thought I'd take a moment to explain the differences between these two terms and why the valuation basis matters in the event of a claim:

ACV (Actual Cash Value): This is a method of valuing equipment that some insurance companies offer. While at policy inception you will be required to provide a current equipment schedule that includes the estimated value of your equipment, this value is not used to adjust a claim. Instead, in the event your vehicle is damaged in a covered loss the physical damage claims adjuster will go to the marketplace and determine what the equipment was worth as of the date of the accident. In the event of a total loss you will be paid this amount less the applicable deductible. The benefit of this sort of policy is that there is no limitation set on the value of equipment. It is worth whatever it is worth; no more, no less and co-insurance never applies.

Stated Amount: This method puts the responsibility to report the value of a piece of equipment on the owner. You specify if your vehicle is worth \$100,000 or \$10,000 and the underwriter rates your physical damage policy's premium accordingly. All the responsibility falls to you. In the event that your vehicle is damaged in a covered loss, the physical damage claims adjuster will go out to the marketplace and determine the value of your vehicle as of the date of loss. This is where things get tricky. If the insurance company finds that you significantly under valued your vehicle a Co-Insurance Clause may apply, which might mean you will be paid significantly less than what you expected to get for your vehicle in the event of a total loss.

In contrast, actual cash value (ACV), also known as market value, is the standard that insurance companies arguably prefer when reimbursing policyholders for their losses. Actual cash value is equal to the replacement cost minus any depreciation (ACV = replacement cost - depreciation). It represents the dollar amount you could expect to receive for the item if you sold it in the marketplace (*not to be confused with Bluebook*). The insurance company determines the depreciation based on a combination of objective criteria (using a formula that takes into account the category and age of the property) and subjective assessment (the insurance adjuster's visual observations of the property or a photograph of it).

What Does "Replacement Cost" Mean?

The term "replacement cost" is defined or explained in the policy. Simply stated, it means the cost to replace the property on the same premises with other property of comparable material and quality used for the same purpose. This applies unless the limit of insurance or the cost

actually spent to repair or replace the damaged property is less. Refer to your policy for the exact definition and explanation of replacement cost.

What is "Actual Cash Value"?

The term "actual cash value" is not as easily defined. Some courts have interpreted the term to mean "fair market value," which is the amount a buyer would pay a seller if neither were under undue time constraints. Most courts, however, have upheld the insurance industry's traditional definition: the cost to replace with new property of like kind and quality, less depreciation. Courts have varied in their rulings as to whether or not depreciation includes obsolescence (loss of usefulness as a result of outmoded design, construction, etc.).

So What's the Difference?

The only difference between replacement cost and actual cash value is a deduction for depreciation. However, both are based on the cost today to replace the damaged property with new property.

What About "Book" Value?

Note that accounting or "book" value has no relevance to either of the previous methods of valuation. The depreciation rate reflected in "book" value would yield a terribly inadequate settlement. Another problem with using "book" value is that it may reflect only the items that are "capitalized." To determine adequate limits, one must add "expensed" items into capitalized items.

Guaranteed value

Guaranteed Value insurance policies, for exotic/collectible car guarantee that, in the event of a covered total loss, if you decide not to keep the vehicle, you will receive the vehicle's full insured value.

If you have any questions don't hesitate to contact me. **Gérald Gaucher** ggaucher@aaod.com. Or by calling me at 888-511-2234.

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