



Insurance Claim Payment Methods

Actual Cash Value (ACV) & Replacement Cost Value (RCV)

There are several different methods by which an 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 at today's normal and customary pricing. If your lawnmower is stolen, a replacement cost policy will reimburse you the full cost after you replacing it with a new lawnmower of same like, kind and quality (LKQ). The insurer will not take into consideration the fact that you may have used it to mow lawns for a side income, causing it a considerable amount of wear and tear.

Actual Cash Value represents the dollar amount you could expect to receive for the item if you sold the aged and/or worn lawnmower today in the marketplace. 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). In the case of the stolen laptop, the insurance company would deduct from its replacement cost an amount for all the wear and tear it endured prior to the time it was stolen.

In contrast, Actual Cash Value (ACV), also often 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 ($ACV = \text{replacement cost} - \text{depreciation}$).

When a policyholder has a Replacement Cost endorsement added to their policy an actual claim flows similar to: Replacement Cost Value less your Policy Deductible and less "Recoverable" Depreciation = Actual Cash Value (ACV) Payable; When the damaged or stolen item is replaced by the Policyholder then the "Recoverable" Depreciation (often called "Hold Back") is then payable to the Policyholder.

How to get replacement cost coverage

Personal property generally loses value over time due to ordinary wear and tear. Accordingly, you are arguably better off with a replacement cost policy. If you prefer such coverage, then read your policy and check with your insurance agent. There are certain requirements you typically need to meet before you are entitled to receive replacement cost for your house and possessions. Remembering, you will most likely need to replace the item and provide a receipt or proof of ownership to get the "replacement" dollar amount.



CLAIM PAYMENTS EXAMPLES:

ACTUAL CASH VALUE POLICY - Claim

\$10,000.00 (Complete Replacement Cost Value of covered dwelling damage)

-2,500.00 (25% depreciation applied (non-recoverable depreciation))

-1,000.00 (Per Occurrence Policy Deductible)

\$6,500.00 (Final **Actual Cash Value** payment **Payable**)

1. Insurance Check is made payable to Insured AND (Mortgage Company)
 - A. Mortgage Companies most often require Insured endorse check first!
 - B. Insured then mails or delivers endorsed check to Mtg. Co for their deposit
 - C. On large dollar losses, Mortgage Co. will disburse portions of the claim payment(s) to your Licensed Contractor after verifying satisfactory dwelling repairs are being performed.

REPLACEMENT COST VALUE POLICY - Claim

\$10,000.00 (Replacement Cost Value of covered dwelling damage)

-3,500.00 (35% depreciation applied (recoverable depreciation))

-1,000.00 (Per Occurrence Policy Deductible)

\$5,500.00 (**Actual Cash Value Payable**)

House damages are now completely repaired or replaced by
Policyholder or their Contractor

+\$3,500.00 Recoverable Depreciation or "Hold Back" payment due from Insurer



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