

**Math or Myth – ACV & RCV**

*Speakers:*

Educational Objective: There are many issues that arise in the context of measuring actual cash value and replacement cost. This course will address some of the more prevalent issues raised in property claims arising, including a practical discussion as to what constitutes a replacement of “like kind and quality.” The session will also address valuation of replacement cost and actual cash value issues from outside forces such as an area-wide catastrophe affect the cost of labor and material. This course also will address certain issues such as (obsolescence) raised when stock, as opposed to real property, is damaged and submitted as part of the windstorm claim. We will briefly discuss how the application of a policy’s coinsurance provision may be affected by the valuation of the loss at either an actual cash value or replacement cost basis.

**I. Policies-Available - Coverages & Definitions (20 Minutes)**

**A. Standard Policies& Available Coverage**

1. Actual Cash Value
2. Replacement Cost

**B. Definitions / Key Wording Review**

1. Policy and Dictionary Definitions of Actual Cash Value
  - a. Replacement Cost Less Depreciation
  - b. Value of Property in Its Depreciated Condition
  - c. Indemnification
  - d. Fair Market Value
2. Replacement Cost
  - a. Cost of Labor
  - b. Overhead & Profit of Contractor
  - c. Depreciation of Labor & Overhead – Debate & Case Law

(2 CE/CLE Hours)

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**II. Calculating Replacement with Property of like Kind & like Quality (25 Minutes)**

A. Policy Wording

1. Policy Language / Definition Examples of “Like Kind & Like Quality”
2. Dictionary examples of Quality
3. Compliance w/ Brand Standard
4. Line of sight and/or matching damaged materials to undamaged materials
5. Code Upgrades
6. Comparable Material & Quality
7. Damaged equipment no longer manufactured
  - a. Updated technology
  - b. Same function
8. Effect modern design & current manufacturer’s specifications on like kind and quality
  - New manufacturer specifications
    - a. Prior faulty materials in construction

**III. Evaluation of Stock’s Value at Actual Cash Value & Replacement Cost (30 Minutes)**

A. Policy Wording

1. Inventory / Stock
2. ACV & RCV

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3. Standard ISO CP 00 10 10 12 Building and Personal Property form
    - a. ACV not in definitions.
    - b. option for “Replacement Cost (without deduction for depreciation) to replace Actual Cash Value”
- B. Key Issues
- A. Comparison of ACV adjustments for Stock versus Business Personal Property
  - B. Turnover of stock
  - C. Slow moving / obsolete inventory
  - D. “Lower of Cost or Market” (LCM) rule under Generally Accepted Accounting Principles (GAAP)
  - E. Item no longer available or produced
  - F. Selling Price Less than Replacement Cost
  - G. Original Cost Greater than Current Replacement Cost
  - H. Purchase of “Lot” / Discontinued Items
  - I. Replacement Pricing Dependent on Volume
- C. Other Definitions
1. Fair market value
    - a. willing buyer will pay to a willing seller in the marketplace
  2. Broad Evidence Rule
    - a. Combination of methods