

Depreciation Q&A: Replacement Costs vs Actual Cash Value

Q: How will my insurance policy respond if I have hail or wind storm damage?

A: Most home insurance policies use replacement cost as the basis for settlement, which means the property will be repaired or replaced with similar kind and quality of materials. Some policies have a basis of settlement based on an Actual Cash Value (ACV), which means you would be entitled to a depreciated value of the property or component, commonly calculated based on age, life expectancy and general condition.

Q: What does my policy mean when it talks about “replacement cost”?

A: Basically, the replacement cost is the cost, on the date of the loss or damage, of the lesser of:

- 1) Repairing the property with materials of similar kind and quality; or
- 2) Replacing with new articles of similar kind, quality and usefulness; without any deductions for depreciation.

Q: What does it mean when my policy talks about Actual Cash Value (ACV)?

A: The ACV takes into account such things as the cost of replacement less any depreciation. In determining the depreciation, the insurer we will consider the condition immediately before the damage, the resale value and the normal life expectancy.

Q: Why does my policy provide Replacement Cost coverage for some items and ACV for others?

A: While damage for hail, wind and other perils are commonly covered under most residential insurance policies on a replacement cost basis, some items may use ACV as the basis for settlement. These policies are set up to help keep your premiums affordable while still providing some level of coverage. The distinction in specific cases indicate the homeowner is responsible for the deductible plus some level of depreciation based on the age and life expectancy of specific components that were damaged. This could be the case for components such as your home's roof and siding. Your insurer will calculate a level of depreciation based on the age, condition and life expectancy of the damaged component.

Q: Under what circumstances will my policy be settled based on ACV?

A: Auto insurance policies commonly use ACV as the basis of settlement. However there are limited exceptions involving newer vehicles. In those cases, a “waiver of depreciation endorsement” may be

available for newer vehicles which changes the basis of settlement from ACV to a type of replacement cost.

Some residential policies use ACV as the basis for settlement as well. These types of policies could include farm buildings, mobile homes, seasonal properties or rental properties to name a few.

Q; Are there limits to coverage for property damage caused by wind or hail?

A: Some insurance providers limit coverage on specific exterior residential materials such as roofs and siding. In these cases, the insurer may choose to provide replacement cost instead of ACV. In some policies, there are exclusions that limit or restrict coverage for specific perils including hail and wind damage. It is important to review your policy with your insurance professional to understand what is covered and what is not.

Q: Are there specific phrases I should look out for that would indicate any restrictions on my policy?

A: Examples of wordings that indicate restrictions include, but not limited to:

- Limited roof coverage / roof and siding limitation endorsement
- Limited loss settlement for windstorm or hail
- Roof restriction clause
- Limited replacement cost

Q: How can I be sure that all of my property is covered for wind and hail damage?

A: Some insurers provide peril specific deductibles that can be applied to your policy. For example, your policy may include a higher deductible for damage caused by hail and a lower deductible for fire damage. Contact your insurance representative to discuss your policy and the deductible that applies.

Q: My insurer determined my claim settlement and I don't agree with it. Is there a way to resolve our dispute?

A: Yes. Insurance Bureau of Canada has detailed dispute resolution options on our website: <http://assets.ibc.ca/Documents/Disaster/Dispute-Resolution-At-a-Glance.pdf> and Alberta's Superintendent of Insurance provides information on [how to resolve a complaint](#) on its website.