

# STATE OF COLORADO

DEPARTMENT OF REGULATORY AGENCIES

## DIVISION OF INSURANCE

1560 Broadway, Suite 850  
Denver, Colorado 80202



### Bulletin No. B-5.1

#### **Calculation Of Actual Cash Value: Prohibition Against Deducting Contractors' Overhead And Profit From Replacement Cost Where Repairs Are Not Made**

##### **I. Background and Purpose**

The purpose of this bulletin is to clarify the position of the Division of Insurance regarding the calculation of actual cash value in residential insurance policies. This bulletin replaces Bulletin 12-98 in its entirety.

Bulletins are the Division's interpretations of existing insurance law or general statements of Division policy. Bulletins themselves establish neither binding norms nor finally determine issues or rights.

##### **II. Applicability and Scope**

This bulletin is intended for and applies to all property and casualty insurance companies providing replacement cost coverage of dwellings. The scope of this bulletin is limited to the calculation of actual cash value for dwelling coverage in replacement cost policies, where the policy language below, or substantially similar language to that shown below, is used.

##### **III. Division Position**

Insurers shall be prohibited from deducting contractors' overhead and profit in addition to depreciation when policyholders do not repair or replace the structure.

The relevant policy language states:

"We will pay the actual cash value of the damage to the buildings, up to the policy limit, until actual repair or replacement is completed."

The Division of Insurance has learned that one or more insurers have interpreted this language, or substantially similar language, to permit deduction for contractors' overhead and profit, in addition to depreciation, from replacement cost in calculating actual cash value.

The position of the Division of Insurance is that the actual cash value of a structure under a replacement cost policy, when the policyholder does not repair or replace the structure, is the full replacement cost with proper deduction for depreciation. Deduction of contractors' overhead and profit, in addition to depreciation, is not consistent with the definition of actual cash value. The Division of Insurance will interpret policy provisions containing the foregoing or similar language to prohibit deduction of contractors' overhead and profit, in the calculation of actual cash value, where the dwelling is not repaired or replaced by the policyholder.

Nothing in this bulletin shall be construed as prohibiting the carrier and insured from explicitly agreeing to a different method for calculating actual cash value.

#### **IV. Additional Division Resources**

##### **For More Information**

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#### **V. History**

- Originally issued as bulletin 12-98, December 21, 1998.
- Reissued May 8, 2007.