

Bulletin 92-4

**Household personal property replacement cost endorsements
homeowners and farmowners insurance**

November 16, 1992

It has been brought to the attention of the Division of Insurance that some insurers are using the following language in their household personal property *replacement cost endorsement* or policy which states that "the limit of liability paid for replacement cost will not exceed 400% of actual cash value as of time of loss." The use of 400% of actual cash value to determine replacement cost is misleading to consumers since it may not be the cost of replacing the property.

Insurers should check their policies to determine if that language is in their policies and if it is, that language should be changed through a filed endorsement, re-filing the form, or by announcing pursuant to the policy's liberalization clause that the policy will cover the replacement cost, *not a percentage of the cost*. The following language is acceptable in the section entitled Replacement Cost:

We will pay no more than the least of the following amounts:

- (1) replacement cost at the time of loss without deduction for depreciation;
- (2) the full cost of repair at the time of loss;
- (3) the limit of liability that applies to Coverage C; or
- (4) any special limits of liability stated in this policy.

The Division is requesting that the companies enact this change on a voluntary basis or the Division will have to proceed to formally withdraw approval of any filings with the 400% language. Proof that the company is in compliance should be sent to the Property/Casualty, Rates/Forms analysts before January 1, 1993. Any claims processed on a replacement cost basis after January 1, 1993, must be processed using the above definition of replacement cost and *not a percentage of actual cash value*.

This document is to be signed by a company official in the space provided below and returned to the Division prior to December 15, 1992.

The undersigned acknowledges having received and read the aforementioned Bulletin.

Name of Company: _____

Date: _____

Signature: _____

Position or Title: _____

Please retain a signed copy for your files.

Darla L. Lyon
Director of Insurance

