



Testimony of
American Property Casualty Insurance Association (APCIA)
Senate Finance Committee
Senate Bill 52 - Property Insurance - Settlement of Claims and Notices
January 28, 2026

Support with Amendments

The American Property Casualty Insurance Association (APCIA) is the primary national trade organization representing nearly 71.4 percent of the Maryland property casualty insurance market. Senate Bill 52 prohibits the current practice of insurers when settling actual cash value claims from depreciating the value of labor. The bill also requires insurers to notify an insured at renewal of changes in policy coverages. Insurers are already required to provide such notices under COMAR 31.08.05.01 et seq. APCIA appreciates the opportunity to provide written testimony regarding Senate Bill 52 and suggested amendments.

Consumers deliberately choose ACV policies because they are more affordable than RCV policies, allowing households to tailor coverage to their individual financial needs and risk tolerance rather than paying higher premiums for broader coverage they may not want or need. ACV policies exist precisely because consumers demanded lower-cost options, and eliminating or functionally converting them into RCV coverage by mandate removes that choice. In an era of heightened affordability pressure, forcing all consumers into de facto RCV policies would inevitably raise homeowners insurance premiums across the board, reducing flexibility, increasing household costs, and disproportionately burdening price-sensitive consumers who deliberately selected ACV coverage to manage insurance expenses.

The Economic Value of Property Is a Byproduct of Both the Materials and Embedded Labor That Go into Making the Finished Product.

The bill fails to recognize that the value of property is a byproduct of both the labor and materials that go into making a finished product – whether that be an item of personal property or the roof on an insured’s home. The material and labor components that make up a property’s economic value are necessarily intertwined. They cannot be separated when calculating depreciation without artificially overstating the value of damaged property.

While Maryland courts have not directly addressed the issue raised by the proposed bill, numerous courts in other jurisdictions, including the state supreme courts of both North and South Carolina, have held that depreciating labor costs is appropriate. As the North Carolina Supreme Court explained, “[t]he policy language provides no justification for differentiating between labor and materials when calculating depreciation, and to do so makes little sense.” *Accardi v. Hartford Underwriters Ins. Co.*, 838 S.E.2d 454, 457 (N.C. 2020). This is because “[t]he value of a house is determined by considering it as a fully assembled whole, not as the simple sum of its material components.” *Id.*

Similarly, the South Carolina Supreme Court explained that “the market has one price for [a] roof because the materials and labor costs are ‘embedded’ in it;” “[t]hus, when a typical homeowner replaces a roof, she pays for

the roof as one unit.” *Butler v. Travelers Home & Marine Ins. Co.*, 858 S.E.2d 407, 411 (S.C. 2021). “[I]t makes no sense for an insurer to include depreciation for materials and not for embedded labor.” *Id.*

Courts from other jurisdictions have also long recognized that actual cash value means the actual economic value of the property at the time of loss. *See Butler* at 409. (“ACV is what the structure was worth at the time it was damaged”); *see also, e.g., Tyler v. Shelter Mut. Ins. Co.*, 184 P.3d 496, 501 (Okla. 2008) (actual cash value means “the actual value of property expressed in terms of money”); *Lampe Mkt. Co. v. Alliance Ins. Co.*, 22 N.W.2d 427, 428-29 (S.D. 1946) (ACV means “‘actual value’ expressed in terms of money”); *McAnarney v. Newark Fire Ins. Co.*, 159 N.E. 902, 903 (N.Y. 1928) (“[w]e interpret ‘actual cash value’ to have no other significance than ‘actual value’ expressed in terms of money”).

Maryland’s highest court has recognized that “[t]he definition of depreciation is, of course, well recognized: ‘Broadly speaking, depreciation is the loss, not restored by current maintenance, which is due to all the factors causing the ultimate retirement of the property. These factors embrace wear and tear, decay, inadequacy, and obsolescence. Annual depreciation is the loss which takes place in a year.’” *Pub. Serv. Comm’n of Maryland v. Baltimore Gas & Elec. Co.*, 329 A.2d 691, 700 (Md. 1974).

When the economic value of a building or other physical asset decreases, it is not limited to a decrease in value of the materials. Rather, it is the **total economic value of the property** that declines as the property’s physical condition deteriorates over time through wear, tear, and obsolescence. Therefore, applying depreciation to the total economic value (i.e., the materials and the embedded labor) accurately restores the insured to the position they were in prior to the loss.

In other relevant contexts, such as Property Tax Assessments, Real Estate Appraisals, Eminent Domain and other valuations, depreciation is also consistently applied to the full economic value of a property, including both labor and materials, because it is a fair and accurate measure for estimating the economic value of property. Conversely, when depreciation is applied only to materials as the MIA urges, a property’s economic value is artificially inflated, and an insured is placed in a better financial position than before the loss.

Depreciating the Full RCV Fairly and Equitably Reflects the Economic Value of the Damaged Property Immediately Before the Loss Occurred.

Senate Bill 52 also misconstrues the process of settling claims under RCV policies. For example, the MIA states in the fiscal note that “the practice of depreciating labor shifts the financial burden of necessary repairs to damaged or destroyed property onto the policy holder. It is the position of MIA that, unlike physical goods, the cost of labor does not wear out or lose value over time.” However, under the terms of most RCV policies, an insured is not entitled to receive the cost of repairing or replacing damaged property until the work is performed and the costs are incurred. Rather, an insured is first entitled only to receive the ACV of the damaged property. The insured may then recover the RCV of the damaged property if, and when, the damaged property is repaired or replaced.

Under this two-step valuation framework, the initial ACV payment is intended to indemnify the insured for their actual economic loss, not to pay for the costs to repair or replace the property. As the U.S. Court of Appeals for the 8th Circuit explained in *In re State Farm Fire & Cas. Co.*, 872 F.3d 567, 573 (8th Cir. 2017):

The basic premise of traditional property insurance is the concept of indemnity. The insured who suffers a covered loss is entitled to receive full, but not more than full, value for the loss suffered, to be made whole but not be put in a better position than before the loss. Policies that provide this level of coverage are universally known as actual cash value policies. *See, e.g., Travelers Indem. Co. v. Armstrong*, 442

N.E.2d 349, 352 (Ind. 1982); 12 Couch on Insurance § 175.5 (3d ed. 2005 & 2017 Supp.). The limitation of property loss coverage to the insured's actual loss serves the public policy of preventing over-insurance, which can be an 'inducement to destroy property in order to procure the insurance upon it.' Daggs v. Orietn Ins. Co. of Hartford, 136 Mo. 382, 38 S.W. 85, 87 (1896), aff'd, 172 U.S. 557, 19 S.Ct. 281, 43 L.Ed. 552 (1899).

To calculate the ACV of property, the insurance industry uses the "replacement cost less depreciation" formula. Under this formula, which is widely accepted, an insurer first estimates the RCV of the damaged property and then applies a reasonable amount of depreciation based on factors such as the age, condition, obsolescence and useful life of the property. This formula fairly and equitably reflects the economic value of the insured's loss before making repairs. The following example provided in the MIA's own consumer guidance is illustrative:

"For example: your sofa was destroyed by a covered cause of loss, such as fire. The sofa was purchased 10 years ago for \$1,500 and would be fully depreciated in 20 years. Since the sofa is 10 years old, it has depreciated 50%, or \$750. ¹

The MIA's example above does not only apply depreciation to the sofa's material costs. Rather, depreciation is applied to the sofa's full value as a finished product, which includes both the materials and embedded labor that went into making it. Applying depreciation to the full value of damaged property results in a logical, common-sense valuation of the insured's actual economic loss. Indeed, a reasonable person would expect that a sofa that is 50% through its useful life at the time of the loss would be worth approximately 50% of its original purchase price.

The application of depreciation to building damage is no different. To illustrate, consider the following example:

A roof is damaged by a hailstorm and needs to be replaced. The new roof will cost \$10,000 -- \$4,000 for materials and \$6,000 for labor. If the roof was 24 years old and expected to last 30 years, what would the roof's estimated value be immediately before the storm (i.e., the ACV)?

Given the roof has only 20% of its useful life remaining, a logical estimate of the roof's value at the time of the storm would be approximately \$2,000 ($\$10,000 \times .20$). In contrast, if depreciation were applied only to the roof materials and not to the embedded labor costs, the ACV payout would be \$6,800 [$(\$4,000 \times .20) + \$6,000$]. This is three times more than the roof was actually worth before the storm.

As illustrated by these examples, applying depreciation to the full RCV of the damaged property fairly and equitably compensates the insured for the value of the damaged property at the time the loss occurred. In doing so, the insured is restored to the approximate financial position they were in prior to a covered loss.

RCV policies allow an insured to also recover the full RCV (i.e., the difference between the RCV estimate and the amount of the initial ACV payment) if, and when, the repairs are completed. When the insured incurs the cost to complete such repairs, the RCV coverage applies to return the insured to the approximate financial position they were in before incurring the costs to repair the property. Conversely, as explained above, applying depreciation only to materials when calculating the ACV of damaged property allows insureds to recover more than the actual economic value of what they lost and, if the repairs are not completed, the insured is placed in a better position than before the loss.

¹ Maryland Insurance Administration, "A Consumer Guide to Homeowners Insurance," at p. 28 (<https://insurance.maryland.gov/Consumer/Documents/publications/homeownersinsguide.pdf>)

Depreciating Labor is Consistent with the Principle of Indemnity and Reduces Blight

Depreciating labor is also consistent with the principle of indemnity underlying ACV coverage and reduces blight. It is the property's overall "value" that depreciates. For example, once a roof has been constructed, it ages, or incurs wear and tear. The labor that went into its construction or prior repairs is indivisible from the whole. Applying depreciation to the full RCV (materials and the embedded labor) to calculate the ACV of the property fully indemnifies the insured for the economic value of what they lost.

While an insured always has the option under RCV policies to recover the full RCV of damaged property by completing the repairs, RCV policies do not require that an insured repair damaged property. In fact, many insureds opt not to make repairs. One national carrier reported that between 2019 and 2023, more than 30% of homeowners that submitted claims for property damage in Maryland never made a claim for recoverable depreciation.

Under SB 52, homeowners that decide not to repair the damaged property would receive payment for labor costs that they never will incur. This outcome is inconsistent with principle of indemnity upon which insurance is based. It also highlights why most RCV policies are written to only provide ACV coverage until an insured completes the repairs.

By withholding depreciation until after the insured contracts to have repairs completed, the policy also encourages insureds to timely repair property damage. Completing the repairs in a timely manner helps to protect the property from further damage that could be caused by leaving damaged property unrepaired, such as water damage that may result when a roof is not timely repaired. Timely repairs also reduce blight and stabilize the property values of both the damaged structure and other properties in the neighborhood.

Depreciating Labor Does Not Cause A Significant Financial Burden On Consumers but is Part of a Well Established Framework for Financing Repairs

The MIA appears concerned that depreciating labor unfairly puts a significant financial responsibility on insureds to pay labor costs. However, in addition to the fact that RCV policies do not typically cover future labor costs before the work is completed and the costs are incurred, indemnifying an insured for the economic value of what is lost (i.e., the ACV) does not typically impose any unusual additional financial burden on consumers to make repairs.

Policyholders are generally *not* required to pay for the full cost of repairs out of their own pocket before receiving the RCV payment. The ACV amount is typically sufficient to provide a deposit for a contractor to commence work if the insured intends to make repairs. Contractors do not typically insist on full payment before completion of their work. In fact, it would be unwise for a homeowner to pay the full cost of repair upfront.

Additionally, a policyholder is *not* prohibited from recovering the full cost to replace damaged property. Under most policies, a policyholder may recover on an RCV basis, and thereby receive an economic gain, simply by making the repairs.

Claim professionals generally meet with contractors if there is a concern about whether an insurer's estimated replacement cost value is sufficient to cover the cost of the repairs, and contractors know that the insurer will promptly pay the amount held back for depreciation when repairs are completed. Further, on larger losses, progress payments are also frequently paid to the insured as the work is completed.

Applying depreciation to materials does not cause any unusual financial burden on a consumer that wants to repair damaged property. **AMENDMENTS**

Amendments Requested

1. Express Policy Language as an Alternative- This is APCIA’s strongest request for an amendment.

As an option, we recommend allowing insurers to depreciate non-materials if they include clear, express policy language and appropriate consumer notice. Given certain companies have approved filings from the MIA that already address this issue.

Comments on the MIA’s Proposed Legislation- Other Amendments

2. Section 19-118

- Page 2 Lines 3-6 ACV vs. RCV Policies: As written, section 19-118(A)(1) could be interpreted as applying only to policies that insure property on an ACV basis. If the intent is for the bill to apply to the calculation of ACV under RCV policies, this should be clarified to avoid industry uncertainty.
- Page 2 Line 7 Strike October 1, 2026 and insert January 1, 2027. This will permit adequate time to change software and update any forms.
- Page 2 Line 4 No Requirement to Repair, Rebuild or Replace: Section 19-118(A)(1) applies to policies that “require” repair, rebuilding, or replacement base on ACV. Most first-party property policies do not “require” insureds to repair or replace damaged property. We believe the MIA intends this to apply to policies where RCV is not payable until repairs or replacement occurs. If so, the language should be revised accordingly.
- Page 2 Line 12 Basis for Depreciation: Section 19-118(B)(1) states that physical depreciation must be “based on the condition of the property at the time of the covered loss. INSERT” including factors not limited to age, condition, usefulness and obsolescence.

In practice, depreciation is determined using multiple factors, including age, condition, useful life, and obsolescence. Limiting depreciation to only property “condition” would represent a significant departure from standard valuation practices and materially affect claim settlements.

- Page 2 Line 26-27 Overhead & Profit (O&P): Section 19-118(C)(2) includes any O&P “charged” by the labor provider as a labor expense. At the time ACV and RCV are calculated, O&P is typically estimated rather than charged, as a contractor has not yet been retained. Clarification is needed.
- Page 3 Line 1-3 Intrinsic Labor in Manufactured Goods: Section 19-118(C)(3) appears to apply to labor costs intrinsically included in manufactured materials, such as building materials (e.g., shingles, windows, etc.). It is unclear whether this is also intended to apply to personal property, such as furniture. Clarification would be helpful.

3. Section 19-217

- Notice of Coverage Changes: Section 19-217(B)(2) requires written notice when a renewal policy does not cover a risk that was covered under the expiring policy. Clarification is needed regarding how this requirement interacts with COMAR 31.08.05.01 et seq., which already requires notices of reduction in coverage. We also recommend that an exception be provided in circumstances where the change in coverage is requested by the insured or the insured’s producer.

4. OTHER AMENDMENTS

- Strike Lines 6-7 on page 4

The bill would make a single violation of the new law an unfair claim settlement practice (UCSP) (see lines 6-7 on page 4) with all the heightened penalties that go along with that. Maryland is unusual in having any single instance UCSPs (Most states only have pattern or practice UCPSs), and they are usually reserved for serious violations. To jump from having no law at all on this subject to making it a single instance violation seems unfounded. Striking lines 6-7 leaves it as a pattern or practice violation but not a single instance violation.

- Page 4 strike October 1, 2026, and insert to January 1, 2027

APCIA appreciates the opportunity to provide written testimony regarding Senate Bill 52 and requests the committee consider the requested amendments.

Nancy J. Egan,

State Government Relations Counsel, DC, DE, MD, VA, WV

Nancy.egan@APCIA.org Cell: 443-841-4174