IA&B Insurance Agents & Brokers

May 30, 2025

Via Email: kathryn.callahan1@maryland.gov
Kathryn Callahan, Director of Regulatory Policy
Maryland Insurance Administration
200 St. Paul Place, Suite 2700
Baltimore, Maryland 21202

Dear Kathryn:

RE: IA&B COMMENTS – DEPRECIATION OF LABOR FOR CLAIMS SETTLED ON AN ACTUAL CASH VALUE BASIS

On behalf of the Insurance Agents & Brokers of Maryland (IA&B), thank you for the opportunity to review and provide comments on the draft bulletin concerning the depreciation of labor costs in property claims settled on an actual cash value (ACV) basis. We appreciate the Department's efforts to ensure fair and transparent claims settlement practices. However, we believe that a blanket prohibition on depreciating labor costs is not advisable, particularly in the current property insurance landscape. If enacted as written, Maryland would join only a small handful of states which explicitly ban the depreciation of labor costs when calculating ACV: California, Washington, and Vermont.

First, it is important to recognize the inherent inconsistency in allowing the depreciation of materials, but not of labor, when the cost of those materials is also derived from the cost of labor used to assemble them. For example, the value of a roof shingle reflects more than just the cost of raw asphalt and granules; its value also encompasses the labor involved in sourcing those raw materials, as well as the labor involved in the processes of manufacturing, assembly, and transportation. This embedded labor is depreciated without controversy as the value of materials are depreciated.

Much like the individual roof shingle, the finished product of a roof repair is a composite of both material and labor inputs. Over time, both elements degrade in utility and value. Depreciating one without the other fails to reflect the actual economic loss incurred and departs from the principle of indemnity, which aims to restore the insured to their pre-loss position, not to improve it.

Clarity in Policy Language

IA&B supports the Department's goal of promoting clarity in claims settlement. Clear policy language is key to consumer understanding and market consistency. In speaking to our member agents, we have found that policy language does not always define "actual cash value" or indicate whether labor is subject to depreciation. We agree that depreciation should not be applied in a manner that is hidden or ambiguous.

Rather than a blanket ban, we recommend that the Administration address this ambiguity by requiring insurers to address the issue directly in their policy language. When policies plainly disclose whether labor will be depreciated, agents are better equipped to explain the coverage to consumers, and policyholders can make informed decisions based on their needs and expectations.

Affordability Concerns and Addressing Root Causes

The proposed prohibition on labor depreciation must also be evaluated in light of its potential impact on insurance affordability and market stability. In today's hard P&C market, removing tools to manage claims losses like ACV-based settlement with labor depreciation could lead to unintended consequences. Eliminating this flexibility may limit carriers' ability to control losses, which in turn could compel insurers to further raise rates, tighten underwriting guidelines, or reduce product offerings in the state. These outcomes would directly affect consumers by increasing premiums or decreasing the availability of coverage options, particularly for older homes or properties in areas with high storm risk. Maintaining balanced claims settlement options is thus not merely a matter of insurer preference, but a matter of long-term market sustainability and consumer access.

Finally, we respectfully encourage the Administration to give due consideration to the underlying factors that have led to increased use of ACV endorsements, particularly in the context of roof claims. In recent years, Maryland insurers and agents have observed a marked increase in post-storm solicitation from contractors who aggressively market "free roofs" to policyholders and inflate repair estimates. While our members overwhelmingly regret the loss of replacement cost coverage for roofs, they understand the underlying reasons that have prompted insurers to make this change. Removing the ability to apply depreciation to the labor costs of roof installation would enable bad actors to continue to manipulate their invoices and push insurers to use other methods to control costs, such as by increasing the use of percentage deductibles. Such deductibles would affect all homeowners, regardless of their roof's condition at the time of the claim.

Any policy change that restricts the ability of insurers to manage claims costs must be carefully weighed against its potential to exacerbate these issues and inadvertently reward bad actors. While Maryland has made progress through both legislative and regulatory actions, they have not significantly curbed these abusive practices, which impose undue strain on the insurance system as a whole.

Sincerely,

Johnathan Savant
Government Affairs Director

Cc: Jason Ernest, President & CEO, IA&B
Claire Pantaloni, VP Advocacy, IA&B
Don Bankus, Director of Legal & Corporate Affairs, IA&B