



191 Main Street, Suite 310 – Annapolis MD 21401 – 410-

May 30, 2025

Joy Y. Hatchette, Deputy Commissioner
Maryland Insurance Administration
200 St. Paul Place, Suite 2700
Baltimore, MD 21202

RE: Bulletin 15-XX
Depreciation of Labor for Claims Settled on an Actual Cash Value Basis

Dear Commissioner Hatchette,

I am writing as President of the Maryland Association of Mutual Insurance Companies (MAMIC) with respect to the referenced draft bulletin. Thank you for the opportunity to submit comments, and also for extending the response date to May 30, 2025.

MAMIC members have discussed this subject at some length, including the position outlined in the draft bulletin. We respectfully submit that the Administration's position in the bulletin, while apparently straightforward, does not account for various relevant factors that may affect the adjudication of certain property insurance claims, especially claims brought under homeowners insurance policies.

Some background will be helpful in understanding the concerns of MAMIC members. Homeowners insurance typically provides coverage on a replacement cost basis for real property; i.e. the structure itself. Coverage may be provided on an actual cash value basis (ACV), however, under certain circumstances. For example, an applicant may select a form of coverage often described as "dwelling fire." Under this form, coverage is often more limited than under a standard homeowners policy. One of the differences may be that the valuation method is ACV rather than replacement cost.

Typically, coverage provided under a replacement cost basis requires the insured to replace the damaged property in order to receive a payment based on replacement cost. During the claims settlement process under a typical homeowners policy, insureds generally receive ACV settlements initially with the requirement to provide proof of repairs in order to be eligible for the full replacement cost. By paying labor at replacement cost rates upon the initial claim settlement payment, as the Bulletin seems to require, insurers may be in a position to over-indemnify insureds on repairs that have not yet been completed, and that may never be completed.

In contrast, losses adjudicated on an ACV basis may present different options. Typically, payment is made to the insured by the insurer, but there is no requirement that the insured repair the damage. In other words, the insurable interest in the damaged property is limited to the depreciated value of that property.

Turning to the draft bulletin, these longstanding policy provisions and industry practices are not addressed. The bulletin could be interpreted to require a payment for the replacement cost attributable to labor when, in fact, the insured has no contractual obligation to repair the damage. Because replacement cost claims and ACV claims are so different, it is also true that the labor component of each method is quite different from the other. Seeking to apply a labor cost based on replacement of the damaged property would likely be greater than the labor cost calculated under an ACV formula. In many cases the labor costs required on a

replacement cost basis may far exceed the cost of materials on an ACV basis, especially where there has been substantial depreciation to the value of the damaged materials.

Some insureds may select to insure a property on an ACV basis as they can insure their property at lower limits and often for a reduction in premium. In other cases an insurer may not be willing to offer coverage to a property due to some conditions of the property such as an older roof unless the insured would be willing to select ACV. By requiring all labor costs for claims to be settled on a replacement cost basis, this may limit insurers' willingness to offer coverage to a property more susceptible to losses due to the age and conditions of the materials on or in the property.

A majority of MAMIC members are significant writers of homeowners and dwelling coverage in the State. Their offerings have remained available even as other carriers have increased rates significantly and restricted their writings. In our experience, the use of replacement cost and ACV formulas have permitted insureds to identify their insurance needs and select policies that are appropriate for those needs. Requiring that all labor costs for homeowners insurance claims be calculated on a replacement cost basis would limit options available to some insureds and increase costs for others.

For these reasons, MAMIC respectfully requests that the referenced bulletin be withdrawn. At the same time, we would be happy to consult with the Administration if it believes that other changes may be necessary in the method of homeowners and dwelling claims adjudication.

Very truly yours,

A handwritten signature in black ink, appearing to read "Melissa Shelley". The signature is fluid and cursive, with the first name "Melissa" and last name "Shelley" clearly distinguishable.

Melissa Shelley
President

cc: Kathryn Callahan, JD
Bryson F. Popham