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BULLETIN 25-XX

DATE: [INSERT DATE]

TO: Property Insurers, Joint Insurance Administration, and
Maryland Automobile Insurance Fund

RE: Depreciation of Labor for Claims Settled on an Actual Cash Value Basis

The Maryland Insurance Administration will consider comments concerning this draft bulletin that are submitted to Kathryn Callahan (Director of Regulatory Policy), at kathryn.callahan1@maryland.gov, on or before May 19, 2025.

The Maryland Insurance Administration (the “Administration”) is issuing this Bulletin to clarify that property insurers may not depreciate labor costs when settling claims on an actual cash value (“ACV”) basis.

The cost of repairing or replacing damaged property is generally considered to be the sum of two categories of expenses: (1) materials (e.g., shingles and nails); and (2) labor (e.g., roofing contractor). When settling a property loss claim on an ACV basis, an insurer calculates and deducts depreciation to reflect the actual value of the property, based on its physical condition at the time of the covered loss.

“Depreciation” connotes a decline in the value of physical goods or materials over time due to wear and tear, deterioration, or obsolescence. The ACV of damaged property is the cost of replacing the damaged property with materials of like kind and quality, minus the depreciation of materials being replaced. Unlike physical goods and materials, labor does not wear out or lose value over time. In fact, the market value of labor tends to increase over time. Therefore, labor costs associated with repairing damaged property may not be depreciated when settling a property loss claim on an ACV basis.

It is the Administration’s position that, pursuant to § 27-304(6) of the Insurance Article, depreciation of labor costs, when committed with such frequency as to indicate a general business practice, constitutes an unfair claim settlement practice in violation of Subtitle 27. This

practice contradicts the very purpose of property insurance – to restore the insured to the approximate financial position they were in prior to a covered loss – by unfairly shifting significant responsibility for labor repair costs to the insured.

For the reasons stated above, the Administration will not approve any policy form with language that allows for depreciation of labor. Furthermore, any policy that contains language allowing for depreciation of labor must be amended, via endorsement, to remove such language by [90 DAYS AFTER PUBLICATION OF THE FINAL BULLETIN].

Marie Grant
Insurance Commissioner

By: **Signature on Original**
Joy Hatchette
Deputy Commissioner

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