

# Arkansas Insurance Department

Mike Beebe  
Governor



Jay Bradford  
Commissioner

**BULLETIN NO.** 13-2013

**DATE:** July 5, 2013

**TO:** ALL LICENSED PROPERTY AND CASUALTY INSURERS, ALL FARM MUTUALS, NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS, AND OTHER INTERESTED PARTIES

**FROM:** ARKANSAS INSURANCE DEPARTMENT

**SUBJECT:** DEPRECIATION OF LABOR PROHIBITED

The purpose of this bulletin is to clarify the position of the Arkansas Insurance Department regarding the depreciation of labor. When an insurance claim is filed for structural loss, the relevant insurance policy requires either replacement cost or actual cash value depending on the method provided for in the policy. Certain items may be depreciated in value to account for their age and wear and tear. The items that are eligible for depreciation are what this Bulletin seeks to clarify.

In determining actual cash value, depreciation is typically considered. However, depreciation must be considered on a case-by-case basis. The most important guiding principle for calculating depreciation is that it must be actual, not artificial. Depreciation is artificial and, thus, improper, if it is based on a calculation formula set in advance. Depreciation should be reasonable, not excessive. Artificial or excessive depreciation is a violation of fair claims settlement practices.

An initial settlement typically contains figures for debris removal, tear-off labor, materials, and the repair labor. For these components, only materials are subject to depreciation for calculating actual cash value payment. **Labor of any kind related to replacement cannot be depreciated.**

Valued policy law in Ark. Code Ann. § 23-88-101 requires, in the case of a total loss by fire or natural disaster of the property insured, that a property insurance policy, other than for flood and earthquake insurance, shall be held and considered to be a liquidated demand against the company taking the risk for the full amount stated in the policy. Deductions for co-insurance or deductibles are not allowed. The statute makes no distinction as to the type of property policy involved.

Questions concerning this Bulletin may be directed to the Legal Division at (501) 371-2820 or by e-mail at [insurance.legal@arkansas.gov](mailto:insurance.legal@arkansas.gov).

  
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JAY BRADFORD  
INSURANCE COMMISSIONER  
STATE OF ARKANSAS

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