



**ARKANSAS INSURANCE DEPARTMENT
LEGAL DIVISION**

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Bulletin 1-96

PERSONAL LINES LOSS SETTLEMENTS

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This Bulletin is intended to supersede Bulletins 9-94 and 9A-94.

As a result of recent disasters in California and Florida and increased pressure from reinsurers, property insurers are proposing further limitations on the amount of Replacement Cost for dwellings. The definitions of "Guaranteed Replacement Cost," "Excess Dwelling Coverage," "Replacement Cost" and "Actual Cash Value as used by the Arkansas Insurance Department are as follows:

GUARANTEED REPLACEMENT COST—In the event of a covered loss to the dwelling, the insurance company will pay the full amount needed to repair or replace the damaged or destroyed dwelling with like or equivalent construction without regard to the policy limit and without depreciation.

EXCESS DWELLING COVERAGE—In the event of a covered loss to the dwelling, the insurance company will pay the full amount needed to repair or replace the damaged or destroyed dwelling with like or equivalent construction without depreciation, and without regard to the policy limit, up to an additional amount separately specified in the policy contract.

REPLACEMENT COST—In the event of a covered loss to the dwelling, the insurance company will pay the full amount needed to repair or replace the damaged or destroyed dwelling with like or equivalent construction without depreciation up to the policy limit.

ACTUAL CASH VALUE (ACV)—Replacement Cost less depreciation. In addition to Guaranteed Replacement Cost, Replacement Cost and Actual Cash Value policies, an insurer may offer policies covering a residential dwelling with amounts in excess of Replacement Cost (referred to as Excess Dwelling Coverage). Excess Dwelling Coverage, if offered, may not be less than 25% above the dwelling limit. Insurers no longer wishing to offer Guaranteed Replacement Cost must file for approval and offer to all current Guaranteed Replacement Cost insurers an endorsement providing EXCESS Dwelling Coverage. It shall be the insured's decision which amount to elect if multiple excess limits are offered.

A disclosure, which must be pre-approved by the Department, must accompany all policies reducing coverage from Guaranteed Replacement Cost to Excess Dwelling Coverage. Such notice must clearly and concisely state that Replacement Cost is no longer an unlimited amount.

Questions concerning this Bulletin may be directed to Becky Harrington, Senior Analyst, Property and Casualty Division of this Department, at (501) 686-2975.

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