Common Insurance Terms

Term	Definition	Example
Replacement Cost Value (RCV)	The actual cost to replace or repair a structure at its pre-loss condition	Replacement Cost coverage in a property policy provides for new property of like kind and quality to replace covered property destroyed or lost due to a covered peril.
Actual Cash Value (ACV)	Cost of replacing damaged or destroyed property with comparable new property, minus depreciation and obsolescence	You have a fire loss at your home that was built in 1980. The fire causes $100,000 RCV in damages. The insurance company deducts $30,000 in depreciation from the RCV of $100,000 and issues an ACV payment of $70,000. If you have an ACV Insurance Policy: You would be paid $70,000 for your loss, but you would not be compensated for the depreciated amount of $30,000.
Functional Building Evaluation	Basic valuation provision that permits the insurer to replace damaged property with a functional equivalent, typically used with older properties. In a nutshell, the valuator determines what it would cost to replace the property with a functional equivalent.	The cost to recreate outdated construction techniques from the early 1900's can be staggering. Your Victorian home's value may be $300,000. However, to pay someone to rebuild it using the exact techniques and materials used in the original construction may exceed $500,000. Functional replacement cost valuation means your insurer will cover the replacement cost to build your home using the most up-to-date techniques and materials available at a lower cost in today's market.
Co-Insurance	Common property provision that requires you to carry insurance limits equal to a specified percentage (often at least 80%) of a property's actual cash value in return for a reduced rate. If the insured fails to carry a sufficient limit to satisfy this provision, a penalty will be applied that results in the insured becoming a "co-insurer" on the claim.	If you are insured for less than 80%, you are penalized in the event of a loss. The penalty is calculated by the following formula: $\frac{\text{Did Insure Amount}}{\text{Should Insure Amount}}$ X Loss Amount – Deductible = Payment **Example:** Amount of Insurance Carried: $50,000 Replacement Cost Determined at Time of Loss: $100,000 Loss Amount: $30,000 Deductible: $2,500 $\frac{\$50,000}{\$100,000}$ X $30,000 - $2,500 = Payment .5 X $30,000 - $2,500 = Payment $15,000 - $2,500 = $12,500 Payment It's vital you understand how co-insurance works!