Replacement cost vs. actual cash value: What it means for your business coverage.



Business owners: Do you know the difference between replacement cost insurance and actual cash value coverage? The kind of business insurance you choose could make a big difference if your property or equipment is damaged.

Let's start with some basic definitions.

- **Replacement cost coverage:** An insurance policy that pays out the full amount required to repair or replace your damaged property with a new item of similar kind and quality (minus any deductible the policy requires).

  Example: Five computers at your business are destroyed in a fire. The original cost of each computer was $2,500, but new computers of the same quality and kind will now cost $3,000 each. RC coverage will pay the $15,000 to buy five new computers (up to the limit of your policy and minus any deductible).

- **Actual cash value coverage:** An insurance policy that pays out the actual cash value of the item or property being replaced or repaired. Actual cash value = the replacement cost minus depreciation, based on the item's age and condition.

  Example: Suppose that in the previous example, your insurance carrier determines that your five computers had each depreciated by $500 due to age and wear before they were destroyed in the

fire. This means the actual cash value of each computer is $2,500 (replacement cost of $3,000 minus $500 depreciation), so you will only receive a $12,500 payout for the five computers (minus your deductible).

Which type of coverage is best for my business?

Replacement cost coverage is the best option for most businesses. While premiums are typically a bit higher for replacement cost policies vs. actual cash value policies, they can save your business thousands in repair or replacement costs, as well as lost revenue.

Here's why: As you can see from our examples, replacement cost coverage usually results in a higher payout. This allows you to move quickly to replace equipment or make repairs, rather than losing valuable operating time securing financing to bridge the gap between the actual cash value payout and the cost of new items. This saves your business lost revenue as well as repair and replacement costs.

Because our goal is always to give you comprehensive coverage that helps you avoid post-loss financial hardship, Frankenmuth Insurance usually recommends replacement cost coverage for our business customers.

When would actual cash value coverage be a logical choice?

Actual cash value coverage may be appropriate for older properties, properties that are functionally obsolete, or when replacing the property post-loss is not a priority. However, you should be aware that insuring a property on an actual cash value basis is subject to underwriting acceptability, so property in poor condition may not be insurable.

Both replacement cost and actual cash value policies are available to Frankenmuth Insurance business customers. Talk to a local, independent agent to learn what's best for your needs.

This content was developed for general informational purposes only. While we strive to keep the information relevant and up to date, we make no guarantees or warranties regarding the completeness, accuracy, or reliability of the information, products, services, or graphics contained within the blog. The blog content is not intended to serve as professional or expert advice for your insurance needs. Contact your local, independent insurance agent for coverage advice and policy services.