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October 31, 2025

Administrative Letter 2025-06

TO: **All Insurers Licensed to Write Fire Insurance, Homeowners Insurance, Dwelling Property Insurance, and Interested Parties**

RE: **Depreciation of Labor and Nontangible Items in Property Insurance Policies**

This administrative letter affirms longstanding guidance from the Bureau of Insurance addressing whether labor expenses and other nontangible items may be depreciated in "actual cash value" ("ACV") loss settlement calculations under property insurance policies containing ACV or replacement cost loss settlement conditions.

Consistent with the Code of Virginia ("Code") and certain Commission regulations,[1] when insurers issue a payment based upon ACV, insurers must pay the cost to repair or replace the damaged property with material of like kind and quality less depreciation of the property. Depreciation is a decline in a property's value because of use, wear and tear, or age.

The Bureau has long considered the depreciation of labor and other nontangible items (examples include taxes, fees, and overhead and profit) not to be permissible under Virginia law. Labor and other nontangible items, unlike physical materials, do not lose value or degrade over time.

On prior occasions, the Bureau has found the depreciation of labor and other nontangible items in the definition of ACV to be an unfair claims settlement practice pursuant to Section 38.2-510 of the Code.

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[1] The Commission's Rules Governing Standards for the Content of Dwelling Property Insurance Policies (14 VAC 5-341-10 *et seq.*) and the Commission's Rules Governing Standards for the Content of Homeowners Insurance Policies (14 VAC 5-342-10 *et seq.*) of the Virginia Administrative Code.

Questions about this administrative letter may be directed to:

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Cordially,

/s/ Scott A. White
Commissioner of Insurance