

# Insurance: Points to Ponder

by Ken Roberts



## Replacement Cost vs. ACV: How Do We Choose?

As insurance agents and brokers, we toss around terminology that to the average theatre representative often resembles a NASA checklist when we assess a particular risk for the purpose of insurance. You'll hear things like GL instead of General Liability, D&O instead of Directors and Officers Liability and "comp" instead of Workers Compensation. The two property insurance terms you may hear most often are RC and ACV.

RC stands for *replacement cost*, while ACV stands for *actual cash value*. These terms specifically relate to how your assets are valued, as well as how the policy is priced. All buildings, contents and theatrical properties will be "rated" in one of these two categories, based on your preference and that of your insurance company. Replacement Cost coverage is exactly what it implies. It is the amount of money it would take to restore or replace the insured asset to new or "like-new" condition.

Actual Cash Value is often referred to as market value, in which case the cost to replace the asset is depreciated based on its age and condition. It stands to reason that since the amount of insurance is less on an ACV basis than RC, policies rated on an ACV basis are less expensive.

While on the surface, ACV seems more attractive because of the lower premium, there are problems that come into play when the time comes to collect for a claim. You're at the mercy of the claims adjuster, who will be the one who ultimately evaluates your damaged assets, and if he or she decides, for instance, that your five year old light board, which has been struck by lightning, is worth only half of its original retail price, you will be paid the reduced amount. And to add insult to injury, your deductible will be taken out as well; leaving you to try to purchase a replacement with less than half of the money it cost you to purchase

the original board. The premium you may save on the front end may be more than offset in the event of a claim, so you have to carefully consider the risk versus the reward.

Insuring for replacement cost eliminates most of the subjectivity when it comes to making a claim, but it definitely costs more to do so. You know the age and condition of your building, contents and theatrical equipment, and I can almost guarantee you, especially when it comes to equipment, that you will know better than an adjuster what it will cost you to replace it if it is damaged. To avoid haggling with an insurance adjuster over the value of our equipment, we all need to make sure that we have purchased an amount of insurance that we can be comfortable with, and that we all have a firm grasp of both the *actual cash value* and *replacement cost* of our theatrical properties.

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Reprinted from Spotlight, October 2005  
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