

The official publication of the Auto Body Association of Texas (ABAT)

# TEXAS

## AUTOMOTIVE™



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# HOW TO DEFINE LOSS ASSOCIATED WITH A TOTAL LOSS

Dear Mr. McDorman:

I attended your seminar at SEMA last week and found several of your key points on appraisal interesting and applicable to events we face in our shop on a monthly basis. Would you (for me and the other readers) expand on what you discussed about defining loss associated with a total loss? In your presentation, you mentioned the salvage value used by the carriers is also a factored value, similar to that of the adjusted vehicle values of the market valuation firms. As I understood, defining the salvage value, as well as the actual cash value, would define the loss associated with the vehicle once an accurate repair plan is written.

Thank you for attending my seminar at SEMA. It was great to present to my peers and industry leaders at such a wonderful educational event. Yes, this is correct. Once the actual cash value and salvage value have been defined and an accurate repair plan has been written, this would define the loss associated with the vehicle. Please allow me to explain and provide an example of the two total loss methods: Economic, known as total loss formula, and Constructive, known as total loss threshold. The salvage value is a key component of the total loss formula and has no bearing on the total loss threshold. The result of each formula is used to calculate a damage ratio (percentage of loss to value), and a damage ratio greater than 100 percent is typically used to justify deeming a vehicle a total loss.

The total loss formula method adds the total cost of the repair plus the salvage value of the vehicle. In the event that the two are greater than the **actual cash value**, the vehicle is eligible to be deemed a total loss. The total loss threshold method compares the actual cash value of the vehicle to the allowable repair cost. If the **allowable repair cost** is less than the actual cash value (and there are no missing or unrepairable components and the vehicle can be safely returned to its pre-loss OEM condition), the vehicle should be eligible for repair. The total loss formula almost always benefits the insurer by determining a safely repairable vehicle to be a total loss. To illustrate the difference in the carrier liability between the Economic and the Constructive total loss calculations, I will use the example from my presentation at SEMA.

A carrier had deemed a vehicle a total loss, had offered a proposed perceived base value of \$21,414 and had valued the salvage at \$8,565. The complete OEM blueprint to safely return the vehicle to its OEM pre-loss condition was \$14,998. The ultimate carrier liability for this claim was the base value of \$21,414 plus sales tax of \$1,338.37, less our client's \$250 deductible, plus storage, blueprint fee and other related charges. Based on the example and using the replacement loss type calculation, the final carrier liability would be \$12,849 (\$21,414 - \$8,565) plus sales

tax, storage, blueprint fee and other related charges, minus the deductible.

The policy will always determine whether the total loss formula or the total loss threshold method should be used to arrive at repair or replace as the loss type. Based on the example above, the following are the calculations used for the total loss formula and the total loss threshold to determine the policy right to repair or replace.

First, let's look at the carrier loss under the total loss formula method. The cost to repair is \$14,998, and the proposed perceived salvage value is \$8,565. The sum of the two is \$23,563. The proposed vehicle adjusted value is \$21,414. Under the total loss formula, the vehicle is eligible ( $\$23,563 > \$21,414 = \text{Economic Total Loss}$ ) to be deemed a total loss. The damage ratio is over 100 percent based on the carrier adjusted value of \$21,414; however, defining the true actual cash value allows us to determine that the actual cash value as of the date of loss was actually \$24,989. Based upon the true actual cash value, the vehicle is repairable ( $\$23,563 < \$24,989$ ).

Now, let's look at the example of carrier loss using the total loss threshold method. The repair cost is \$14,998. Texas allows the refinishing time, paint materials and sales tax to be deducted from the repair cost before the damage ratio calculation. The \$14,998 repair cost included refinishing time (\$2,350), paint materials (\$1,750) and sales tax (\$873). The allowable repair cost under the Texas Transportation Code is \$10,025 ( $\$14,998 - \$2,350 - \$1,750 - \$873$ ). With a proposed base value of \$21,414 and an allowable repair cost of \$10,025, the damage ratio is only 46 percent. As previously mentioned, Texas is a 100 percent total loss threshold state. As we can see using the total loss threshold method, the vehicle is repairable even at the low carrier adjusted value of \$21,414.

By using the total loss formula, based on the proposed adjusted vehicle value of \$21,414, the carrier can deem the vehicle a total loss and lower its liability. As we see in this example, the final carrier liability is limited to just \$12,849 plus sales tax, storage, blueprint fees and other related charges, allowing them to escape the OEM blueprint repair plan, rental expense and other costs associated with a safe repair. In the total loss threshold example, the ultimate carrier liability is for the \$14,998 repair cost plus rental expense and the extremely likely addition of supplement charges. Under the total loss threshold method, the final carrier liability could easily exceed \$16,500 in this scenario.

*continued on pg. 21*



Robert is a recognized Public Insurance Adjuster and Certified Vehicle Value Expert specializing in motor vehicle-related insurance claim resolution. Robert can be reached at (800) 736-6816, (817) 756-5482 or via email at [AskTheExpert@autoclaimspecialists.com](mailto:AskTheExpert@autoclaimspecialists.com).

# Ask The Expert

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It's easy to see why the carrier always pushes to use the total loss formula method when calculating a total loss. The greater the salvage value of the vehicle, the lower the assessed liability for the carrier and the greater the benefit of deeming a repairable vehicle to be a total loss. Most policies in Texas use the total loss threshold method to determine the repair or replacement loss type; however, please note that **in either total loss calculation method, THE DETERMINATION OF THE ACTUAL CASH VALUE OF THE VEHICLE IS PARAMOUNT in defining the loss.** Our subsidiary, Vehicle Value Experts, can help ensure that your client's claim is being valued correctly.

In most insurance policies, these types of loss disputes can be resolved through an appraisal process. Using the **Appraisal Clause**, loss disputes can be resolved relatively quickly, economically, equitably and amicably by unbiased, experienced and independent third-party appraisers instead of through costly and timely mediation, arbitration and litigation. Over the years, we have handled thousands of complex Appraisal Clause assignments. We have most insurance policies in our library. Please call me if you have any questions relating to the Appraisal Clause process.

I thank you for your question and look forward to any follow-up questions that may arise.

Sincerely,  
Robert L. McDorman  
TXA

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