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Page 18

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A Total Loss *Tutorial*

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By Robert L. McDorman

AUTO CLAIM SPECIALISTS
"Fair settlements come from knowledge and negotiation"

EXPLORING TOTAL LOSS THRESHOLD, TOTAL LOSS FORMULA AND SALVAGE

Dear Mr. McDorman:

I own a collision facility in Beaumont. I read your December 2018 article, "Please Help Me Understand Why the Insurance Carrier Totaled a Repairable Vehicle." In the editorial, the individual who contacted you said, "I've heard insurance adjusters make catty comments such as, 'Good news for us; we totaled another one.' We routinely deal with similar situations with total losses in our facility. When the insurance appraiser deems a vehicle a total loss, they will often tell us it is due to the salvage value being high. You wrote, "Texas is a 100 percent total loss threshold state, and it does not recognize the total loss formula to define what constitutes a non-repairable or salvage vehicle." What is the difference between total loss threshold and total loss formula? Also, if Texas is a total loss threshold state, why does the salvage value matter?

These are two great questions. Please allow me to answer them by both providing and explaining the two total loss formulas and offering examples. 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 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. In the event 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. In my experience, the total loss formula almost always benefits the insurer by more often deeming a safe repairable vehicle a total loss. I will give you an example with a claim we recently handled where a carrier deemed a safe, repairable vehicle a total loss and tried to escape the liability of the OEM blueprint repair plan by using the total loss formula method.

Our client had a 2013 Infiniti G37 that the carrier deemed a total loss. The carrier offered a proposed perceived base value of $12,757 and valued the salvage at $3,300. The complete OEM blueprint to safely return the G37 back to its OEM pre-loss condition was $9,432. The carrier's gross liability for this claim was the base value of $12,757, plus sales tax of $797 and less our client's $250 deductible – totaling $13,304 plus storage, blueprint fee and other related charges.

Should the carrier deem this G37 a total loss and the client accept the proposed base value of $12,757 as the correct actual cash value, the carrier's estimated liability would be $10,004 ($13,304 - $3,300) plus storage, blueprint fee and other related charges.

Total Loss Formula (TLF): (Cost of Repair Plus Salvage Value) Greater Than Actual Cash Value Equals Total Loss

First, let's look at the G37 under the total loss formula method. The cost to repair is $9,432, and the proposed perceived salvage value is $3,300. The sum of the two is $12,732. The proposed base value is $12,757. Under the total loss formula, the G37 is within $25 of being eligible to be deemed a total loss. The damage ratio is 100 percent.

Robert is a recognized Public Insurance Adjuster and Certified Vehicle Value Expert specializing in motor vehicle-related insurance claim resolution. As the general manager of Auto Claim Specialists, Robert expertly leads this National Public Insurance Adjuster Agency, which is currently licensed in 11 different states and specializes in providing automotive-related claim liquidation techniques, strategies and motor vehicle valuation services to all parties, including individual consumers, body shops, auto dealers, repair facilities, towing and storage operations, lenders, finance companies, banks, legal professionals, governmental agencies and others. The firm's consistent success can be attributed to Robert's 35+ years of automotive industry knowledge, practical hands-on experience and multiple certifications, including licensure by the Texas Department of Insurance as a Public Insurance Adjuster. Auto Claim Specialists clients can absolutely trust that they will be provided with analytical, sophisticated, state-of-the-art, comprehensive, accurate, unbiased and up-to-date data and information that all parties can rely upon as both factual and objective. Robert can be reached at (800) 736-6816, (817) 756-5482 or asktheexpert@autoclaimspecialists.com.

Total Loss Threshold (TLT): Allowable Repair Cost Greater Than Actual Cash Value Equals Total Loss

Now, let's look at the G37 under the total loss threshold method. The repair cost is $9,432. Texas allows the refinishing time, paint materials and sales tax to be deducted from the repair cost prior to the damage ratio calculation. The $9,433 repair cost included refinishing time ($1,615), paint materials ($1,098) and sales tax ($466). The allowable repair cost under the Texas Transportation Code is $9,432 - $1,615 - $1,098 - $466 = $6,253. With a proposed base value of $12,757 and an allowable repair cost of $6,253, the damage ratio is only 49 percent. As previously mentioned, Texas is a 100 percent total loss threshold state.

By using the total loss formula, the carrier can deem the vehicle a total loss and lower its liability. The carrier's assessed liability is limited to just $10,004 plus storage, blueprint fee and other related charges, allowing them to escape the OEM blueprint repair plan, rental expense and other costs associated with a safe repair. Also, any excess recovery over the expected $3,300 salvage cost would reduce the carrier's liability even further.

In the total loss threshold example, the carrier's liability is for the initial repair cost of $9,432 plus rental expense and the extremely likely addition of supplement charges. The total carrier liability would easily exceed $10,500.

You can clearly 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 reparable vehicle a total loss. However, please note that **in either total loss calculation method, the ACTUAL CASH VALUE OF THE VEHICLE IS PARAMOUNT**. Our subsidiary, Vehicle Value Experts, can help your client be assured their 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 should 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