

Lessons from Losses



"Learn from the mistakes of others. You can't live long enough to make them all yourself." –Eleanor Roosevelt

Constructive Total Loss (CTL)

Have you heard of the term "constructive total loss"? You will never forget it if you ever have one!

Example Claim

Jeff purchased two nice new flat bed trailers. One is a lead the other a "pup," and he pulls them as doubles. The lead had a purchase price of \$40,000, the pup was \$45,000. Being handy in the shop, Jeff figured that he could repair almost anything that could happen to these two flatbed trailers if they were involved in an accident. So he decided to insure them for only \$15,000 each. He figured that if the insurance company paid him \$15,000 for each of them, he would be able to use that money to repair anything that could go wrong.

Well, it happened! On a snowy, icy day Jeff lost control of his rig and everything rolled over. He had adequate limits on his tractor, so there was no problem with adjusting that portion of the claim, but the trailers were a different story. There was \$12,000 in damage to the lead trailer and \$9,500 in damage to the "pup."

Jeff thought everything was going to be alright, until the Claim Adjuster called him and told him that he had a Constructive Total Loss (CTL) on the two trailers and would be sending Jeff a check for \$21,500.

\$21,500 would have given Jeff enough money to repair his two trailers, but because the trailers were being totaled-out, he would have to surrender the trailer titles to the insurance company, which means he doesn't own them any more and has nothing to repair!

In the meantime, the claim adjuster had found a salvage buyer willing to pay \$40,000 for both trailers. That meant a profit on the claim of \$18,500 (\$40,000 salvage value – \$21,500 CTL payment = \$18,500). With this, the claim adjuster was able to reimburse the insurance company the \$21,500 that they had paid out to Jeff and then gave the balance (\$18,500) to Jeff. The claim didn't cost the insurance company a cent!

Jeff on the other hand was left holding \$40,000 (\$21,500 CTL payment + \$18,500 profit on the salvage) to replace \$85,000 in equipment, and to top it off, he had used a home equity loan to purchase the two trailers!

Constructive Total Loss (CTL) Defined

How did this happen? It helps to know what a CTL is. A CTL is loss in which the item insured is not totally destroyed but is so severely damaged that the insurance company considers it uneconomical to repair. Often a loss equal to 50% or 60% of the stated value of the piece of equipment is considered a CTL. In fact, some states mandate that the claim adjuster total the equipment if it reaches 60% of the stated value. Now you can see why the stated value is so important!

In Jeff's Case Here Is What Happened:

- 80% damage to the lead trailer ($\$12,000 \div \$15,000 = 80\%$), clearly a CTL.
- 63% damage to the pup ($\$9,500 \div \$15,000 = 63\%$), clearly a CTL.

This Is What Should Have Happened:

- 30% damage to the lead trailer ($\$12,000 \div \$40,000 = 30\%$), clearly not a CTL.
- 21% damage to the pup ($\$9,500 \div \$45,000 = 21\%$), clearly not a CTL.

Had Jeff used a more accurate stated value, his insurance premium would have been approximately \$1,500 more per year, but his trailers would have been restored to pre-loss condition.



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