



## DEPARTMENT OF COMMERCE AND INSURANCE

P.O. Box 690, Jefferson City, Mo. 65102-0690

### INSURANCE BULLETIN 26-04

#### Claims Valuation Software

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The following Bulletin is issued by the Missouri Department of Commerce and Insurance ("Department") to inform and educate the reader on the specified issue. It does not have the force and effect of law, is not an evaluation of any specific facts or circumstances, and is not binding on the Department. See section 374.015, RSMo.

**To:** All property and casualty insurers writing automobile insurance coverages

**From:** Angela L. Nelson, Director

A handwritten signature in blue ink, appearing to read 'Angela L. Nelson', is written over the 'From:' line.

**Re:** Claims Valuation Software

This Bulletin provides guidance to insurers that use third-party valuation software to determine the actual cash value (ACV) of vehicles designated as total losses. It explains regulatory concerns and outlines best practices to ensure compliance with the Missouri Unfair Claims Settlement Practices Act (§§ 375.1000 to 375.1018, RSMo).

Insurers may use valuation software to determine ACV consistent with the Missouri Unfair Claims Settlement Practices Act. However, the use of valuation software alone does not necessarily satisfy an insurer's obligation to ensure a fair and equitable settlement as required by section 375.1007, RSMo.

Insurers that rely on valuation software should be aware of potential issues that may lead to the undervaluation of total loss vehicles, potentially in violation of the Unfair Claims Settlement Practices Act. These issues include arbitrary or undocumented condition adjustments and other vehicle-specific factors not captured by the software. Condition adjustments are increases or decreases to the vehicle's value to account for its condition at the time of the loss. Typically, these adjustments involve reductions in value for pre-existing wear and tear, including dents, stains, or mechanical issues.

Valuation software typically establishes a base value for a loss vehicle by comparing it to similar vehicles. Insurers also often have the option to choose a starting base value that may include a reduction of the comparable vehicles initially from dealer level (ready to sell) to varying levels of privately owned. A starting level less than the highest includes deductions for wear and tear on the vehicle. The valuation software may apply a weighting factor to the comparable vehicles to approximate an actual cash value (ACV) that is closest to the vehicle most resembling the loss vehicle. The claims handler may also further adjust the value based on vehicle-specific factors, such as dealer packages, other options, condition, and mileage of the loss vehicle.

Pursuant to section 375.1007, RSMo, insurers are required to conduct a reasonable investigation and ensure that a prompt, fair, and equitable settlement is achieved where liability has become reasonably clear. During the investigation and settlement process, insurers are encouraged to consider the following when determining a fair and equitable settlement:

- Identify and apply any vehicle-specific options, including dealer trim packages;
- Consider post-purchase upgrades that may be compensable under the terms of the policy;
- Ensure that any deductions due to the condition applied by the claims handler are not duplicative of deductions already applied by the valuation software;
- Apply increases to the value of the loss vehicle, if the loss vehicle is in better condition than the condition ratings provided by the valuation software vendor, and;
- Avoid modifying or adjusting values based on negotiation tactics, such as haggling, because these practices are highly subjective and may lead to unfair settlements.

Consistent with 20 CSR 100-1.050(2)(E), all adjustments based on betterment or depreciation must be documented in the claim file, itemized, explained, and must be fair and reasonable. Insurers are instructed to clearly state what was deducted from the value, how the loss vehicle differs from the comparable vehicles and why those deductions were made. Additionally, 20 CSR 100-8.040(3)(B) requires the file to be maintained in a manner that clearly shows the inception, handling, and disposition of each claim. Therefore, pertinent factors and selections built into the valuation software, such as weighting and condition adjustments, must also be maintained in the claim file. These inputs are needed to audit the vehicle's value.

If an internal review identifies missing documentation for total loss claims, insurers are encouraged to notify the Department in accordance with section 374.049.9, RSMo.

For inquiries regarding this Bulletin, please contact the Market Conduct Section at [marketconduct@insurance.mo.gov](mailto:marketconduct@insurance.mo.gov).

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