

What Is Diminished Value?

Has your car ever suffered from diminished value (DV)? DV refers to damage to an auto that reduces its market value. There are several different types of DV:

Inherent DV: Describes a general conviction that a wrecked vehicle, which is then repaired, is less valuable than a vehicle that has never been damaged. This belief is unaffected by having information on the scope of the repairs or by whether there are any visible signs of repair. It is merely the perception that any significant damage reduces a vehicle's worth.

Example: Will Prudent is ready to get a new car. Although his '03 model has served him well, he's ready for a change. After finding his dream car, Will wants to make a good trade-in deal. Will and the sales rep look over his '03 and agree on a \$3,950 trade-in. As they discuss the loan papers, the rep asks if the '03 has ever been in an accident. Will slaps his forehead and says "Oops, I was rear-ended three years ago. My insurer paid about \$2,000 in repairs." The sales rep then picks up the finance paperwork and says that he will have to re-figure the agreement. When he comes back, the rep says that they can only offer him \$2,400 on the trade-in. Will points out that he's never had any problems with the car and that it ran even better after the repairs...the rep won't budge on the lower trade-in offer.

Claim Related DV: This refers to any instance where an insurer's action or practice results in a inferior vehicle repair. This is subjective because parties can argue over what is meant by inadequate repair. Insurer actions that could trigger claims-related DV include an insurer's:

- insistence upon the use of selected auto repair shops
- requirement that a repair facility use after-market, rather than original, equipment and manufacturer parts
- refusal to pay for additional repairs identified by a repair shop

Repair Related DV: This refers to any instance where a repair shop's action or practice results in an inferior vehicle repair. What is considered a below-standard result that is created by a repair shop may involve:

- completed work which includes below standard labor or improper procedures
- completed repairs where below-standard parts were used when an insurer authorized standard parts
- incomplete repairs when an insurer authorized that all needed repairs be performed.

Now that you have more information on the basics of DV, please be sure to read our companion article, "Is Diminished Value Covered?"

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