Coinsurance

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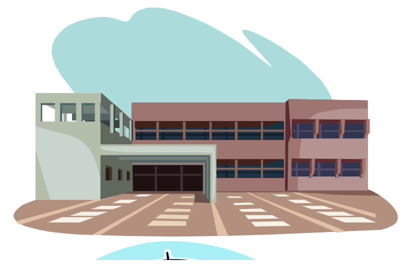

Imagine your limit of insurance on your building is $500,000 at the time you have a $50,000 fire but you can only collect $25000. The problem? The Coinsurance Clause in your property policy; it is one of the simplest but most misunderstood concepts in modern insurance. Here is how it works:

- **In exchange for lower rates…**
  The industry has a number of actuarial reasons for adding a coinsurance clause to a policy, but there is also a benefit to the consumer. With most policies, rates are less when the policy contains a coinsurance clause.

- **You agree to be insured for at least 80% of the replacement cost at the time of loss.**
  The only thing the coinsurance clause requires of a policyholder is that the property be insured to value. Contracts vary and some require 80% of the value, others require 90% or even 100%. (Although we are using "replacement cost" in this discussion, if your property is insured on an "actual cash value" basis and you have an 80% coinsurance clause, you will be required to insure for 80% of the actual cash value.)

- **If you do not keep your promise, you become a coinsurer and share in any partial loss.**
  At the time of loss, the claims adjuster will determine if you have kept the coinsurance promise; he will simply compare the policy limit with an estimated value of the property. If your limit of insurance is not adequate, you will only be compensated for a portion of your loss; you will pay the balance. You are a coinsurer.

- **There is a formula in the policy that determines your share.**
  The industry calls this formula "Did over Should." It simply means that if you only did have half of what you should have had at the time of loss, the insurance company will pay for half of the $50,000 fire and you will pay the rest.

The Bottom Line: The minimum amount of insurance you should carry on property is the limit that will satisfy the coinsurance clause. If you are insured for that amount at the time of loss, the coinsurance clause will not be activated. However, if you are only insured for 80% of the value of the property and you have a total loss, you will have a different problem. You will not be able to rebuild everything you lost. Consider the coinsurance clause when setting your property limits, but also consider how you would respond to a total loss. Then set property limits accordingly.