

## Guide to Coinsurance

Since the concept of Co-Insurance is a fundamental principle of property and business continuation insurance, it is imperative that you understand it before considering the amount of insurance you buy.

Co-Insurance is simply an AGREEMENT BETWEEN YOU AND THE INSURANCE COMPANY, WHEREBY YOU AGREE TO MAINTAIN COVERAGE UP TO A STATED PERCENTAGE OF THE VALUE OF THE PROPERTY YOU WISH TO INSURE, (usually 80% or 90%). As a result of this promise, a significant reduction in the rate is given.

Should a loss occur, consideration is then given to the amount of insurance carried compared to actual values prior to the loss. If the amount of insurance is within the agreed Co-Insurance percentage requirement, the loss is paid in full, up to the policy limits. If, however, the amount of insurance that you carry is below the agreed percentage, you and the company then share the loss.

EXAMPLE: Assume the value of the property you are insuring is \$1,000,000.00 and the policy contains a 90% Co-Insurance clause; this means you should be carrying at least \$900,000.000 coverage. If you were only carrying \$500,000.00 coverage and had a loss of \$400,000.000, the Insurance Company would pay based on the following formula.

**AMOUNT OF INSURANCE CARRIED**

**X AMOUNT OF LOSS = CLAIM**

**PAYMENT**

---

**VALUE OF THE PROPERTY X 90%**

---

---

**\$500,000.00**

**X \$400,000.00 = \$222,000.00**

**\$1,000,000.00 X 90%**

In this example, you would suffer a \$178,000.00 Co-Insurance penalty!

A regular and careful review of the value of the insured property is essential if Co-Insurance penalties are to be avoided. We recommend your insurable values be frequently reviewed by a competent, independent appraisal company.