



## Coverage Insights

### Understanding Coinsurance

Taking the time to understand your insurance policies is well worth the effort. An insurance policy is a complex contract that often contains provisions that assigns certain responsibilities to the policyholder, such as a coinsurance clause. Often misunderstood, The Rollins Agency, Inc. has gathered the basics on coinsurance to help eliminate any potential confusion.

#### Calculating coinsurance

In the simplest terms, the coinsurance provision in a property policy requires the policyholder to carry a limit of insurance equal to a specified percentage of the value of the property to receive full payment at the time of a loss. For example, a building with a value of \$1,000,000 and a policy with an 80 percent coinsurance clause must be insured for at least \$800,000 to avoid a coinsurance penalty at time of loss.

Here's where it gets a bit more complicated: If there is a claim, the formula to determine the recovery is based on the property's replacement value at the time of loss. If the replacement amount is less than the coinsurance percentage, a penalty is applied, reducing the claim payment. For example, a policyholder has \$600,000 of property insurance and a fire causes \$200,000 in damages. The claim is calculated by dividing the amount of insurance purchased (\$600,000) by the value at time of loss (\$800,000). This factor (75 percent) is multiplied by the amount of the loss ( $\$200,000 \times .75 = \$150,000$ ). In this example, the policyholder would receive \$150,000 (less any deductible) for a \$200,000 claim.

#### What policies include a coinsurance clause?

Property insurance policies typically include a coinsurance clause. Building, business personal property and inland marine policies all contain the coinsurance clause mentioned above. Some policies require 100 percent of the value to be insured.

What can you do to mitigate a coinsurance clause? The coinsurance clause included in the policy language can be "suspended" for the term of the policy by adding an agreed amount endorsement. This is a provision where the insurer and the insured agree that the amount of insurance is adequate and the coinsurance clause will not apply to a loss.

The Rollins Agency, Inc. understands coinsurance provisions and can help you review your policies to ensure your coverage meets your expectations. Contact us today at P 914-337-1833 to learn more. ◇

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