

CO-INSURANCE CLAUSE & BLANKET INSURANCE

A LAYPERSON'S GUIDE TO CO-INSURANCE

Since the concept of co-insurance is a fundamental principal 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 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 carried 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 and the policy contains a 90% co-insurance clause; this means that you should be carrying at least \$900,000 of coverage. If you were only carrying \$500,000 coverage and a loss then occurs of \$400,000, the Insurance Company would pay based on the following formula:

| | | |
|---|------------------|-------------|
| <u>Amount of Insurance Carried</u> Value of Property x 90% | x Amount of Loss | = Claim |
| <u>\$ 500,000</u> \$1,000,000 x 90% = \$900,000 | x \$400,000 | = \$222,000 |

In this example, although the total loss was \$400,000 the client will only receive just over 55% of that total (\$222,000) due to being underinsured. IN THE END THE CLIENT WILL SUFFER A PENALTY OF \$178,000!!!

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