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The HHC Herald

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Coinsurance

Many property policies contain a Coinsurance Clause. Basically, coinsurance is an agreement within a property policy in which the policyholder (Insured) agrees to carry an amount of insurance for at least the specified percentage (%) of the replacement cost of that property.

If at the time of loss (even a partial loss), the amount of insurance on your property isn't sufficient to satisfy your part of the agreement, then the insurance company can reduce the amount that would normally be paid in the loss.

For example, an insured has an 80% coinsurance requirement on a building that has a Replacement Cost of $250,000. This would mean that, in order not to incur a coinsurance penalty, the insured would need to have at least $200,000 on the property.

If the insured does carry at least $200,000 then, in the event of a $40,000 loss, the insured would be paid the $40,000 (less deductible) as the coinsurance requirement was met. However, if the insured had only $100,000 on the policy then a coinsurance penalty would be applied.

There is a 2 step formula that is used to calculate a loss.

Step 1 $\dfrac{\text{Amount of Insurance Purchased}}{\text{Amount of Insurance Required}}$ = Penalty %

Step 2 Penalty % X Amount of Loss – Deductible = Amount Paid

So, in the $40,000 example, the insured would only be paid $20,000 (as calculated below):

$250,000 X 80% = $200,000 (Coinsurance amount required)
$100,000 / $200,000 = 50%
$40,000 X 50% = $20,000 (less deductible)

Ultimately, it is the insured's responsibility to determine the amount of insurance needed. However, HHC can help with that decision by using several available Replacement Cost publications and thus help to avoid a coinsurance penalty.

What is Coinsurance, and could it affect your loss payment?

For more information:

Hibbs-Hallmark & Company

501 Shelley Drive ♦ Tyler, TX 75701 ♦ 903.561.8484 ♦ 800.765.6767 ♦ www.HibbsHallmark.com