

Co-Insurance Example

Most insurance policies include a co-insurance clause applicable to property coverage, so it is important that you understand the concept before selecting your limit of insurance.

If you do not insure to the stated percentage of the value that you wish to insure (often 90%, as in this case), a co-insurance penalty would be imposed by the Insurer for under-reporting, and not insuring to the required replacement cost value of your property. The penalty is calculated based on a percentage stated within the policy and the amount which is under-reported.

Please note the following example:

Assume that the replacement cost value of your contents is \$100,000, and the policy contains a 90% co-insurance clause. This means you should be insuring to at least 90% of the replacement cost value of your contents – or \$90,000 in this case.

If you are only carrying \$80,000 of coverage, and suffer a partial loss of \$50,000 (replacement cost value), then the Insurer will indemnify you based on the amount that you have insured to required value, according to the following formula:

(Amount of Coverage Insured ÷ Required Amount of Coverage Insured) x Amount of Loss = Claim Payment

$$\frac{\$80,000}{(\$100,000 \times 90\%)} \times \$50,000 = \$44,444 \text{ Payment for loss (less deductible)}$$

As you can see, in this example the Insurer will only indemnify you for the proportion of the loss that you are insured to the required replacement cost value.

*All losses are subject to a deductible, which is deducted from the payment amount.