

A LAYMAN'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 deciding the amount of insurance you buy.

Co-Insurance is 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%, 90% or 100%). 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 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 Insurer then share the amount of the loss.

Assume the value of the property is \$600,000 and the policy contains an 90% co-insurance clause; this means that you should be carrying at least \$540,000 of coverage. If you were only carrying \$400,000 coverage and had a loss of \$100,000, the Insurance Company would pay based on the following formula:

AMOUNT OF INSURANCE CARRIED

VALUE OF PROPERTY x 90%	X	AMOUNT OF LOSS	=	CLAIM PAYMENT
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\$400,000				
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600,000 x 90% (400,000 ÷ 540,000 =) .740	X	\$100,000	=	\$74,000
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~ In this example you would suffer a \$26,000 Co-Insurance penalty ~

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 Building, Equipment and Contents be frequently reviewed by a competent Independent Appraisal Company to ensure they are adequately insured.