



What is Co-Insurance?

All commercial insurance policies are subject to a co-insurance clause, which requires policyholders to insure their property to an appropriate value, typically 80%, 90% or 100% of the true value.

If a policyholder chooses a lesser percentage of coverage, they become a 'co-insurer' and agree to share any losses with the insurer.

Co-Insurance is probably best illustrated by example:

| | |
|---|--|
| Actual Replacement Cost of Building / Contents | \$10,000,000 |
| Co-Insurance Percentage | 90% |
| Required Minimum Insurance | \$9,000,000 |
| Amount of Insurance Carried | \$6,000,000 |
| Damage Caused by Fire | \$250,000 |
| Amount Paid by Insurance | $(\$6,000,000 / \$9,000,000) \times \$250,000 = \$166,667$ |
| Co-Insurance Penalty | \$83,333 ($\$250,000 - \$166,667$) |

This example puts in dollar terms the Co-Insurance concept which could be described as:

$$\frac{\text{Amount of Insurance CARRIED}}{\text{Amount of Insurance REQUIRED}} \times \text{Value of the Loss} - \text{Deductible} = \text{Amount of Recovery}$$

Co-Insurance does not apply to a total loss. In this example, the maximum amount payable would be \$6,000,000 – which is the amount of insurance carried.

Insurance to value does not cost, it pays.

When insuring buildings, it is the actual cost of physical re-construction (excluding land value) that needs to be insured.

Contact a CapriCMW Risk Advisor today to learn more about co-insurance.