

Coinsurance: How it Impacts your Coverage and Reimbursement



CBIZ Innkeepers Insurance Program does NOT include a coinsurance clause.

An Example: Building Coverage

The rebuild value of your inn is \$250,000. If your policy has an 80% coinsurance clause, the building limit on the policy must be at least 80% of the total rebuild value of your building. In this case, you must insure the building for at least \$200,000.

If you insure for less than 80% of the building rebuild value, then the percentage by which you are underinsured is the same percentage the insurance company will apply when paying a loss. With a building insured for \$100,000 and fire damage of \$50,000, you are 50% underinsured and will only be paid \$25,000 of the \$50,000 loss.

What is Coinsurance?

The coinsurance clause in standard commercial insurance policies requires that you carry a specific amount of insurance based on the rebuild value of the building. If you don't comply with this clause, you will suffer a penalty in the event of a partial loss, which means you will not be fully reimbursed. The penalty is based on the percentage stated within the policy and the amount underinsured.

Why Understanding Coinsurance is Important

Coinsurance is a critical issue that can have devastating consequences in the event of a loss. If you fail to comply with the coinsurance clause, you will suffer a penalty in the event of a partial loss. In essence, you become a "co-insurer" with the insurance company. A typical coinsurance percentage is 80% but it can be as high as 100%, which would impose the greatest penalty for underinsuring. For this reason, it is vital for property to be adequately insured and updated annually to reflect inflation and other cost increases.

Impact When Coinsurance Amounts Aren't Met

| Property Value | Coinsurance Amount | Coverage Amount Required | Actual Insurance Coverage | Percent Underinsured | Loss Amount | Reimbursement Amount |
|----------------|--------------------|--------------------------|---------------------------|----------------------|-------------|----------------------|
| \$250,000 | 90% | \$225,000 | \$150,000 | 67% | \$50,000 | \$33,500 |
| \$250,000 | 80% | \$200,000 | \$100,000 | 50% | \$50,000 | \$25,000 |

As illustrated by the reimbursement amount, the coinsurance clause assesses a penalty equal to the percentage by which you are underinsured. See written example on right for additional detail.

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