



National Real Estate Insurance Group

Coinsurance Provision

Coinsurance is a property insurance provision that states the amount of coverage that must be maintained as a percentage of the total value of the property for the insurance to collect the full amount of loss. Common coinsurance values are 80,90 or 100 percent of the value of the insured property. As a point of reference: the higher the coinsurance percentage is on the property policy, the worse it is for the investor.

The following examples will illustrate how your claim will be settled with and without coinsurance.

A home insured to \$40,000 suffers hail damage in the amount of \$10,000. Let's assume the depreciation percentage is 20% and your wind deductible is \$5,000*. At the time of loss, the reconstruction value of the property is determined to be \$85,000.

For the coinsurance example, let's assume that you have 80% coinsurance. Per your 80% coinsurance clause, you agree at the time of loss to be insured to at least \$68,000.00 (\$85,000 x 80%) – 80% of what the carrier has determined to be the “reconstruction cost” of the property at the time of loss. The carrier would then divide your \$40,000 of coverage into the \$68,000 (which is the true 80% to value number) and determine you are 21.2% underinsured (as you are only insured to .588 of the true replacement cost) – this means you are “underinsured by 21.2%**”.

	With 80% Coinsurance	No Coinsurance
Amount of Loss	\$10,000	\$10,000
Coinsurance Penalty	\$2,120**	-
20% Depreciation	\$2,000	\$2,000
Deductible	\$5,000	\$5,000
Total Adjusted Settlement	\$880	\$3,000

As you will see in the example above, coinsurance penalty can significantly diminish the amount of money you are able to recover following a loss.

*Your depreciation percentage may be different from the depreciation percentage used in this example.

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