

Calculating coinsurance

Some business insurance policies include a coinsurance clause. If your policy includes a coinsurance clause, the amount of insurance you have purchased (the limit of insurance) must equal or exceed a specified percentage of the value of the insured property.

For example, if 80% coinsurance applies to your building, the limit of insurance must be at least 80% of the building's value. If the policy limit you have selected does not meet the specified percentage, your claim payment will be reduced in proportion to the deficiency. The coinsurance percentage typically is found on the declarations page.

Here is what you can expect from your Travelers claim professional if your policy includes a coinsurance clause. He or she will:

- Determine the applicable limit of insurance
- Determine the value of the lost or damaged property (e.g., your building) at the time of the loss
- Apply the coinsurance percentage to the value of the property
- Determine whether the limit of insurance equals or exceeds that amount
- Explain to you how an unmet coinsurance requirement will affect your claim payment

This is the formula for determining whether the amount of insurance you have purchased (the limit of insurance) meets your coinsurance requirement:

$$\text{Value of the property} \times \text{Coinsurance percentage} = \text{Minimum insurance amount required}$$

Here are two examples of how coinsurance works based on a replacement cost value basis.

Scenario 1: Coinsurance requirement is satisfied:



The building limit is \$90,000
The value of the building at the time of the loss is \$100,000
The coinsurance percentage is 90%

- The limit of insurance should be at least
 $\$100,000 \times 90\% = \$90,000$



Because the building limit meets the minimum amount of insurance required under the coinsurance clause, the amount due on a claim is not affected:

The cost to repair the covered damage is \$20,000
The deductible is \$500

- The amount payable based on Replacement Cost Value (RCV) is \$19,500

This amount represents 100% of the cost to repair the covered damage minus the deductible.

Scenario 2: Coinsurance requirement is not satisfied:



The building limit is only \$45,000
The value of the building at the time of loss is \$100,000
The coinsurance percentage is 90%

- The limit of insurance should be at least
 $\$100,000 \times 90\% = \$90,000$



Because the amount of insurance purchased is only 50% of the amount required (\$45,000/\$90,000), coverage is afforded for only 50% of the repair cost:

The cost to repair the covered damage is \$20,000
50% of the repair cost is $20,000 \times .50$ is \$10,000
The deductible is \$500

- The amount payable based on RCV is \$9,500.

The information contained herein is a general description of the types of coverages that may be included in a business insurance policy. It is not a statement of coverage provided under any particular policy. In the event of a loss, coverage afforded under a particular policy will be governed by the terms and conditions of that policy and not by anything contained herein.

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