

What is Co-Insurance Clause?

In property insurance Coinsurance is a penalty imposed on the insured by the insurance carrier for under reporting/declaring/insuring the value of tangible property or business income. The penalty is based on a percentage stated within the policy and the amount under reported. As an example:

A building actually valued at \$1,000,000 has an 80% coinsurance clause but is insured for only \$750,000. Since its insured value is less than 80% of its actual value, when it suffers a loss, the insurance payout will be subject to the underreporting penalty. For example: It suffers a \$200,000 loss. The insured would recover $\$750,000 \div (.80 \times 1,000,000) \times 200,000 = \$187,500$ (less any deductible).

In this example the underreporting penalty would be \$12,500.

The most commonly issued coinsurance percentage would be 80% but can be as high as 100%. The latter [100%] would impose the greatest penalty for under reporting. For this reason, it is vital that values of property are accurately reported and updated annually to reflect inflation and other increases in cost.