



PROFESSIONAL INSURORS  
AGENCY, LLC

# Co-Insurance

## Understanding It in Today's Property Market



### **WHAT IS CO-INSURANCE?**

Most people associate co-insurance with health insurance; however, it's not exactly the same thing when dealing with property coverage. The co-insurance clause was implemented as a tool to ensure property owners were not underinsuring their properties.

### **HOW DOES IT WORK?**

Just like car dealers use the NADA Guide for car values, we use the Marshall Swift & Boeckh (MSB) guide for commercial building values. Now, these are not market values but rather rebuild estimates. At the time of a loss, our adjuster enters information in the MSB system to determine the rebuild cost of a property.

### **AN EXAMPLE:**

Let's say your property is insured for \$500,000 and the insurance policy has an 80% co-insurance clause, meaning you must insure the property for 80% of the cost to rebuild it. If the adjuster determines that the cost to rebuild is \$1,000,000 then the minimum you can insure the property for is \$800,000 (80% of \$1,000,000). Since the property is insured for \$500,000, the claim check will now show a co-insurance penalty because the property was underinsured. This is calculated by dividing what you should have insured the property for into the amount you did insure it ( $\$500,000 / \$800,000 = .625$ ).

The penalty figure is multiplied by the loss amount, which let's say is \$50,000 and that amount is listed on the claim check ( $\$50,000 \times .625 = \$31,250$ ). A claim check for \$31,250 on a \$50,000 loss and that's without even applying the deductible!

I say all this not to confuse you, but to take the burden of calculating the building value of your property off your shoulders. We know the questions to ask and the information to gather to provide you with the best insurance coverage for your property.

Contact Professional Insurors with any questions.

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