

Global Risk LLC

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COMMERCIAL PROPERTY Co-Insurance Clause

Co-Insurance is a clause imposed on most commercial property insurance policies that requires you to insure your property up to a certain limit of insurance (usually 80%-90%, sometimes 100%). This means that if you fail to insure your property to full value, you have become a "Co-Insurer" on your property & in the event of a claim you could be looking at a penalty.

Now we understand that if we under-insure our property, in the event of a total loss, we are short the difference. Take that same concept & apply it to a smaller loss:

Example: Actual Building Value \$500,000

Building Insured for \$300,000

Co-Insurance Clause 80%

Fire Loss \$60,000

In this example the insurance policy states that you must be insured up to 80% of the value of the property (building) ($\$500,000 \times 80\% = \$400,000$). You only have the building insured for \$300,000 thus leaving you under-insured by 25%.

You have a fire loss totaling \$60,000. Because you were under-insured, the insurance company will reduce the amount paid on the loss by the same ratio that you are under-insured. In this case, the insurer would reduce the payment by 25% and pay you \$45,000. As the "Co-Insurer" you are responsible for the remaining \$15,000.

So always be aware of the co-insurance clause on your policy. My suggestion is that you pay to get an appraisal done on your property every two years and insure your property for the same or more than the Co-Insurance percentage. With an appraisal and by insuring for more than the Co-Insurance percent, assures you will not be penalized in the event of a claim. Please remember the values of your asset is dictated by you and reviewed by the carrier upon a claim. It means nothing to them if you under-insure your property, that's why they have this clause to protect them. Who's protecting you?

Call Global Risk for a complete evaluation of your Co-Insurance Clause on your policy.

Sincerely,
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