

Coinsurance Calculation Examples

Insured Property Information

Total Insurable Value (TIV):	\$500,000
Coinsurance Required:	80%
Deductible:	\$1,000
Amount of Loss:	\$50,000

Inadequate Limits of Coverage

Amount of Insurance Carried - "Did"	\$350,000
Amount of Insurance Required (TIV x Coinsurance) – "Should" • (\$500,000 x 80%)	\$400,000
Coinsurance Penalty Calculation Factors	
1. Did / Should (\$350,000 / \$400,000)	1. 0.875
2. Loss Amount	2. \$50,000
3. Deductible	3. 1,000
Coinsurance Penalty Calculation: (1. x 2.) – 3.	(0.875 x \$50,000) - \$1,000
Amount of Payment (From Coinsurance Penalty Calculation Above)	\$42,750
Amount of Coinsurance Penalty (Ignoring Deductibles) (Loss Amount – Payment Amount (before deductible)) \$50,000 - \$42,750	\$6,250

The insured is a "co-insurer" on this loss in the amount of \$6,250. For all partial losses, the insured is only going to be paid 87.5% of the damage amount prior to the application of the deductible. Had the loss been \$100,000, the insured would be paid $((0.875 \times \$100,000) - \text{Deductible})$ which totals \$86,500. Again, the insured would be a co-insurer in the amount of \$12,500 for the loss.

To be fully insured for partial losses in this example, the insured must carry at least \$400,000. Carrying adequate limits assures that the insured will not participate as a co-insurer in any partial loss. However, this is true only of partial losses. Even if the insured fully meets the coinsurance requirements spelled out in the policy, it is still underinsured for a total loss. The insured will not be paid more than the applicable limits of coverage purchased; so if the entire building is destroyed, the maximum the insured in the above example will receive is \$400,000 and is underinsured by \$100,000.