

## Coinsurance Definition

In the U.S. insurance market, coinsurance is the sharing of risk between an insurer and the insured. It is expressed as a percentage or pair of percentages (such as 80/20) with the insurer's portion stated first.

If property is not covered for an amount close to its actual cash value or replacement cost, then the insured will be paid less than the full costs of the loss in accordance with the coinsurance provision.

### Coinsurance Formula:

$((\text{Amount of Coverage Obtained} \div \text{Amount of Coverage Required}) \times \text{Amount of Loss}) - \text{Deductible} = \text{Amount Payable}$

### Example:

JJJ Automotive obtained an "80% coinsurance" policy with a \$1000 deductible which covered stock and other Business Personal Property. On the inception date of the policy, the declared value of the property was \$200,000 and JJJ obtained policy coverage in the amount of \$160,000. Three months later a fire occurred, causing \$100,000 in damage to covered property.

During the claims adjustment process, it was determined that the actual value of stock and other Business Personal Property at the time of loss was \$240,000. The insured did not receive payment for the full amount of the loss (minus deductible) because he had not paid for the \$192,000 of policy coverage which was necessary to meet the 80% coinsurance requirement.

The amount payable was calculated below based on the coinsurance formula.

$((160,000 \div 192,000) \times 100,000) - 1000 = 82,333$

The insurance company will pay \$82,333. The remaining loss amount (\$17,667) was paid by JJJ Automotive.