

Coverage Options

United Church

What is Co-Insurance?

Before discussing coverage options it is important to know what Co-Insurance is:

Co-insurance is used to enforce that the full replacement value of the property is insured. If the policy limit you have selected does not meet the specific percentage, your claim payment will be reduced in proportion to the deficiency.

Example:

The building limit is only \$450,000

The value of the building at the time of loss is \$1,000,000

The coinsurance percentage is 90%

The limit of insurance should be at least $\$1,000,000 \times 90\% = \$900,000$

Because the amount of insurance purchased is only 50% of the amount required ($\$450,000/\$900,000$), coverage is afforded for only 50% of the repair cost:

The cost to repair the covered damage is \$20,000

50% of the repair cost is $20,000 \times .50$ is \$10,000

The deductible is \$500

The amount payable based on Replacement cost is \$9,500.

Coverage Options

Replacement Cost

Functional
Replacement cost

Actual Cash Value

Salvage/Wreckage

Replacement Cost

- ✓ Most common form of coverage
- ✓ At the time of a loss, it puts the insured back to where it was before the loss with materials of like kind and like quality
- ✓ Co -Insurance applies at 90%. If the building is not insured for at least 90% of the replacement value, there is a penalty on partial losses. (see co-insurance example)

Functional Replacement Cost

- ✓ Very uncommon coverage however, due to trending faith buildings it is starting to become more popular in this sector.
- ✓ FRC is used when it is known that a particular building is far larger than required and will be replaced but at a reduced capacity.
- ✓ We would need to know details of the new replacement building and a reasonable way to determine value (ie: Contractor estimate, online assessment, appraisal, etc.)
- ✓ Co-Insurance does not apply to this coverage
- ✓ Approximately 30% higher rate because of the removal of co-insurance and the value of insurance is much lower than the existing structure (It is now insured for the value of the anticipated new structure with less capacity).
- ✓ Due to the increase rate, the replacement building's value would have to be significantly decreased to gain any savings on rate.

Actual Cash Value

- ✓ ACV or Actual Cash value is the replacement cost minus depreciation
- ✓ Very difficult to determine ACV limits or value
- ✓ Many factors go into determining ACV such as age of building, construction type (materials used and the quality/complexity of construction), etc.
- ✓ Co-insurance still applies to ACV insurance, so accuracy of limits is crucial. (See co-insurance example)

Salvage/Wreckage

- ✓ Should only be used when it is determined that the property has no value and is only being insured for the removal of the debris in a total loss.
- ✓ Liability still applies under the policy
- ✓ Maximum coverage is \$50,000 unless otherwise justified.
- ✓ Since there is no value and safety could be a concern, in most circumstances, the building should not be used.
- ✓ Rate is approximately 1.00/100 - \$2500 deductible
- ✓ Recent photos are required – internal/external

Questions?

