Co-Insurance V. Insurance To Value Provisions

John insured his home for $300,000 replacement cost coverage. He has a windstorm loss to his roof and some siding. The adjuster assesses his damages the following ways:

* $28,000 actual cash value
* $32,000 replacement cost – actual loss due to having replacement cost coverage loss settlement

The adjuster also determined the correct replacement cost value for his home is $450,000 due to a new addition and some improvements made to the home last year.

*Regardless of which provision applies, the co-insurance formula is still needed.*

(What did you carry/what should you have carried) X Loss = Possible Payment

(300,000/(450,000 x 80%)) x 32,000 = 26,666.67 or (300,000/360,000) X 32,000 = 26,666.67

* If the policy provides only a co-insurance provision, then the amount payable on the claim is $26,666.67, as John needs to share in the loss due to being underinsured.
* If the policy provides an insurance to value provision, then the amount payable becomes the $28,000 actual cash value amount, as this provision allows the insured to collect the **higher of** the amount determined by the co-insurance formula or the actual cash value.

If the claim were a total loss, you would not have to use the co-insurance formula, as the insured would already be capped at the policy limit, which is not enough to rebuild to full value.