



Geared for Success

*3 minutes to insurance
understanding...*

*Save money and cover
your
fatal gaps.*

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Do you wait 10 minutes for your building to burn before you call the fire department?

Penalty for not insuring to value

It seems too often that we hear about people who didn't have adequate insurance to pay for their loss. Is the insurance company trying to rip them off? Probably not. More often it's the result of a lack of understanding of how property insurance works and what is necessary to value real and personal property for insurance purposes. If you don't insure to value, that's like waiting 10 minutes after the fire starts to call the fire department.

Actual cash value (ACV)

What does ACV mean? Courts have defined ACV as "replacement cost new at the time of the loss, less physical depreciation, plus every other fact or circumstance which would logically tend toward a just estimate of the value." The first part is readily accepted. An example of the second part of the definition is if your destroyed building could not be used for the purpose for which it was built.

It's urgent to recognize that book value has no bearing on your insurable value. Original cost only establishes the starting point to determine current replacement cost.

The most solid way to insure your property is replacement value. That way, if you're insured to replacement value at the time of the loss, under most circumstances, your building will be rebuilt as it was before the loss with like quality and material.

The tricky part is you must be aware of your city building codes and ability to rebuild on your same site. Check these out very carefully.

Coinsurance clause

Most policies contain this clause which means you agree to maintain a certain percentage of insurance relative to the replacement value of your building and personal property. For agreeing to insure to this value, the insurance company gives you a discount. The higher your coinsurance percentage, the lower your fire insurance rates and costs.

A coinsurance example:

Your actual amount of insurance is divided by the required amount, and the result is multiplied by the amount of loss. The deductible is then subtracted to determine how much you will be paid. For example:

Replacement value of property: \$500,000
Coinsurance percentage: 90%
Amount of insurance you buy: \$300,000
The deductible on your policy: \$2,000
The amount of the loss: \$100,000

Your deductible: Together we decide

Most property policies commit you to pay the first part of a loss. Your deductible can range from \$100 to \$100,000 and up depending on what values you insure and your tolerance and capacity to pay your deductible. The higher your deductible, the lower your insurance cost.

Step 1: Required amount (value times coinsurance)	$\$500,000 \times 90\% =$	\$450,000
Step 2: Actual coverage divided by required amount	$\$300,000 / \$450,000 =$	67%
Step 3: Actual loss times percentage result	$\$100,000 \times 67\% =$	\$66,666
Step 4: Claim paid (subtract deductible from total)	$\$0 - \$2,000 =$	\$64,666
Step 5: Amount YOU pay (actual loss less claim paid)	$\$100,000 - \$64,666 =$	\$35,333

Don't be caught short when you have a loss. Insure to replacement value.