Coinsurance: An Essential Concept in Property Insurance

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Male: Adjusters International Property Insurance Roundtable, features casualty and property insurance experts, discussing current issues affecting first party claims. Each podcast focuses on a topic taken from an issue of *Adjusting Today*, a publication from Adjusters International that is written from a policyholder's perspective, and includes real life examples intended to improve disaster preparedness.

Marjorie: Hi I'm Marjorie Musick and welcome to Adjusters International Property Insurance Roundtable. Today we'll be discussing coinsurance. Our panelists include Craig Becker, Executive Vice President of Globe Midwest, Scott Eich Executive General Adjuster at Adjusters International Colorado, James R. Mahurin Risk Management Consultant and C. Todd Thomas, Director of Consulting Services at Adjusters International. Now we're [00:01:00] going to move on to the question guys, and we're going to give each of you an opportunity answer each question. Okay, Craig could you explain what coinsurance is for us please?

Craig: Coinsurance is a clause found in commercial policies. I know we're talking about residential policies also, but it's not technically called a coinsurance clause in a residential policy. In a residential policy, it's called a replacement cost clause. The 80% of replacement cost requirement clause I should say, but in general terms a coinsurance clause is clause on a property insurance policy, that requires the policyholder to carry a certain amount of insurance, which is equal to or greater, it could be greater, than a pre-determined stated value. That value could be the actual cash value of the property, it could be the replacement cost of the property and it can be any percentage really.

[00:02:00] Most forms are 80%, that's where there's a lot of confusion in homeowners forms, because it's also 80% so it looks like the coinsurance requirement clause, but it's really a little different. Most of these commercial forms are 80%/90%/100%. I've seen 50%, but it requires the policyholder carry a certain amount of coverage to what the property is valued at, and also as to what the percentage is.

Marjorie: Thank you Craig, Scott do you have anything you have to add to that?

Scott: Yeah, and adding to what Craig just said the consequences or the ramifications of the coinsurance clause are that, if the value that Craig had previously stated are not met after the insured incurs a loss, the carrier will impose what's known as the coinsurance

[00:03:00] penalty, which could reduce the actual settlement value of the claim by an amount that they're not insured to that value either 80%, 90% or 100%.

Marjorie: Okay, great. Thank you Scott, Jim did you have anything to add to that?

Jim: I think it's important to add that a coinsurance clause is a mechanism that you use to make adequate insurance affordable. The premise of the clause is to require valuation that represents the value of the structure to be insured. There's a tendency for people to insure for less than the full value, and as most losses are partial, that drives costs up to where they're to be unaffordable, particularly if you have a high valued property and you had insurance for the full value, so it's a mechanism that greatly affects the price and

[00:04:00] cost, and availability of insurance. I've had the opportunity to work in states that did not allow coinsurance, and the price of property coverage is quite high.

I think this is an issue that's often very poorly understood both in application and purpose, but it is the clause in the policy that stipulates the relationship, between the value to be insured and the value of the property insured. I'm sorry - the amount of insurance that is purchased on that property.

Marjorie: Thank you Jim. Todd did you have anything to add to that?

Todd: No, I think that our Roundtable did a nice job explaining that.

Marjorie: Great, Craig could you tell us a little bit about why coinsurance would be included in a policy?

[00:05:00]

Craig: That's a very interesting question and to answer that question … there's two answers to that question. There's why an insurance company would want to put coinsurance on a policy, and the second question is why would an insured/policyholder want to have coinsurance on the policy? I'll answer from the company side first. The concept of insurance is spreading the risk of a few … I'm sorry, to get the risk of a few over many, so it's the rule of large numbers. If you're an insurance company, many, many years ago insurance companies that first contemplated and I'm probably talking the 1940s or the 1950s, it was very common for policyholders to carry less amounts of coverage than they actually needed to be properly insured, because from a statistical point of view the

[00:06:00] chances of having a total loss on a structure were very slim.

Insurance companies figured out that, there was a lot of premium dollars that were not being collected and not looking at an individual policy, we're looking at the risk of millions of policies that are written in this country. A lot of insurance premium dollars were not being collected, and yet insurers were over, again, the law of large numbers were adequately protected, because most people were going to have a partial loss, so coinsurance was thought up and it's to make, require a policyholder to carry more

[00:07:00] insurance. When you carry more insurance of course the premium goes up, total premium so it was a mechanism for insurance companies to make policyholders more or less correctly insure their property, and to collect more premium across the broad spectrum of all these policies.

From an insurance point of view, from a policyholders point of view, the higher percentage of coinsurance you have, the less you pay per $100 of coverage, so the rate that you're being charged on $100 goes down as your coinsurance goes up, then that's simply because you're… overall you're paying more insurance, but per $100 of coverage that goes down, so you got to look at it from both the insurance company's point of view and the policyholders point of view.

Marjorie: Thank you Craig, Scott did you have anything to add to that?

Scott: That was a pretty comprehensive analysis. To sum it up, basically, it's really simply to avoid the inequality, and to encourage insured to carry a reasonable, correct amount of

[00:08:00] insurance in relation to the replacement value, or the ACV whatever they elected to choose for their property.

Marjorie: Thank you Scott, Jim did you have anything to add to that?

Jim: I think it's important to add that to insure property without coinsurance the cost is very, very high. The ISO published rate increases by 50%, but personally I doubt if any carrier is doing that. Coinsurance is a mechanism that makes adequate coverage affordable on a broad basis.

Todd: Jim you mentioned, this is Todd. You mentioned ISO, can you explain that?

Jim: The Insurance Services Office publishes loss cost, and base rates that are used by the insurance industry countrywide.

Todd: Thank you.

Marjorie: Todd did you have anything to add?

[00:09:00]

Todd: Not at this time.

Marjorie: Okay, great. Craig could you tell us a little bit about the challenges that policyholders face when filling an insurance claim on policies that include coinsurance?

Craig: The big challenge staring every policyholder down is, whether or not the value that he or she purchased are adequate to comply with the coinsurance. When you have a total loss there's no value left, and we'll just confine this to the structure…., but business interruption, you have a total loss on a structure there is no value remaining, mathematically, you will … if your claim is handled correctly you will be paid the policy limit. That's great news but the flip side of that is, the policy limit may be inadequate to

[00:10:00] compensate you for your loss, but mathematically if you have no value remaining even though when you do the calculations, there will be a coinsurance penalty applied to the loss that number will either equal to, equal or achieve the limit of liability.

The real challenge is to make sure your property is properly insured. Because if you have a partial loss you are going to incur a penalty, and the term coinsurance literally means, you've agreed when you took out that policy to be a co-insurer. You are insuring a portion of any loss that you may have.

Marjorie: Thank you Craig, Scott did you have anything you'd like to add to that?

Scott: Yeah Marjorie. I think one of the greatest challenges of course to a policyholder when [00:11:00] they do have a claim, really to try and maximize whatever they can get for the claim, by having to adhere to how the policy reads. And in this case, if you do have say an 80% or whatever the percentage might be for your coinsurance, you have to look at a couple different angles to see, which valuation and calculation of that penalty could potentially maximize or diminish, what you receive for your claim. One of the things I always look at when I'm working with a client is to whether or not the … potentially looking at the actual if you have a replacement cost policy, looking at whether to make claim on an actual cash value basis versus taking any applicable coinsurance penalty, would be more beneficial to the insured and that is an option that's readily available, under the terms of [00:12:00] all the commercial properties out there.

And I believe even most of the homeowner ones, but you can elect to make your claim on an actual cash value basis thereby avoiding this coinsurance penalty on a replacement cost basis. You have to look at both angles of that, to see which one maximizes the claim settlement that the policy requires the carrier pay the higher of the two, and then along on those same lines, the calculation of the depreciation itself, becomes extremely relevant to make sure that the insurance carrier would accurately be applying the right or correct depreciation, which in normal cases, not always, in some states they use a market value calculation, but most actual cash value figures would be replacement cost less [00:13:00] depreciation equals actual cash value. The calculation of the depreciation itself becomes, just as important as the calculation of the coinsurance as well.

Marjorie: Okay Scott.

Todd: Do you find that the calculation of the depreciation is often an issue when working on the claim?

Scott: I do in many cases because a lot of the carriers have their own depreciation table, so to speak that it's a pretty … it's a pretty generic thing that applies a yearly average lifespan, for a component of a building for instance. If you have a roof that's a three-tab roof, they'll usually utilize 20 or 25 years and then they just simply look at the age of the roof, [00:14:00] divide it by the useful life and that's how they come up with the percentage amount, but in all reality, different components wear differently, people take care of their property, in various ways compared to others.

I always try to look at that, as not being so black and white as to look at the condition of the property, also in relation to that age, and there might be some room for negotiation and changing of those depreciation numbers, which could be beneficial to the policyholder.

Todd: Okay.

Marjorie: Jim, Do you have anything that you'd like to add to that question?

Jim: Yes I do. In a market place many property owners have a single structure, or property owners with multiple structures may have separate policies, because they are separate LLCs with semi-related parties, or the insurance company has simply written multiple properties on a specific basis. When the property has been valued at let's say 80% coinsurance, and you have a total loss, the insured is down 20% immediately, and when you add 12%-15% cost for debris removal and clean up the site, now they're down 32%-35%. So, the position the insured is in when they have a coinsurance policy and they've not insured their property for its full value, they're in a terrible spot from day one.

[00:15:00]

Marjorie: Okay.

Todd: Jim that's a good point. I have seen more and more on the cost with a lot of our clients, where they're moving away from coinsurance to more of a stated value policy just for that very reason. Are you seeing that as well?

[00:16:00]

Jim: Not on the coast, but I see … I work with people that have large property schedules, and we work very, very hard to have 100% value if not more and to do these on a blanket basis, but I continually see where people who may be insured … I'll give you a good … a great example would be a church and they've got a five million dollar building and it's insured for 80%, so they have a four million dollar property value. If it blows away, so you roll a tornado across it and totally destroy the structure, the next thing you know is they have this 20% uninsured share and plus the cost of site cleanup and debris removal, and it can ruin them.

[00:17:00]

Todd: Thank you Jim.

Marjorie: Okay, Craig could you tell us what role the deductible plays in calculating coinsurance penalties?

Craig: Sure. In a commercial policy you … it's critical that whoever is handling the claim, whether it be a public adjuster, or an independent adjuster or a company adjuster or a policyholder, to read that deductible because there are two different types of deductibles. One deductible is applied to the adjusted claim; the other deductible is applied to the loss. When you have a deductible that's applied to the loss, the deductible gets applied first, then you apply the coinsurance percentage. That results in a slightly less deductible, because if you have a coinsurance situation, you're actually getting a slight reduction in your deductible.

[00:18:00] Where policyholders really get hurt, is when they have large deductibles, $25,000, $50,000 on some of these commercial policies, I've seen some to $100,000, and when that deductible is explained in the policy, stated in the policy that it gets applied to the adjusted claim, you do the coinsurance calculation first and assuming there is a penalty, so you're going to have a shortfall, then on top of our shortfall you get whacked with a huge deductible straight up. So if you've got a $50,000 deductible, it comes off to the calculation that is the result of the coinsurance calculation, which is a simple calculation, the amount carried over the amount required times the loss…

So if you're going to be in a coinsurance situation, it's always advantageous to have the loss deductible, because it gets applied and it gets somewhat absorbed, not totally but

[00:19:00] somewhat I the loss calculation… how are you going to say slightly absorbed in the calculation.

Marjorie: Thank you Craig.

Todd: Just as a reminder of what we'll do, is we'll put that calculation in our show notes so that it's available for everyone to take look at.

Marjorie: That's great.

Craig: You did get my correction on that? It's a fraction. It's the amount carried over the amount required. If you had $500,000 and insured had a million, you can see it very quickly in that calculation that, you are going to get 50% of your loss.

Todd: Thank you.

Marjorie: Thank you Craig. Scott did you have anything to add to that?

Scott: No, that was a pretty good description, although I just would add that as far as commercial policies go, the BPP or business personal property usually has the deductible

[00:20:00] coming off before coinsurance is applied, and the CP or commercial policy usually does it the other way, which is the deduction comes down after the calculations.

Marjorie: Thank you Scott.

Craig: Can I add something to that? It's Craig.

Marjorie: Sure.

Craig: That's a very good point. I completely agree with that, and that's why it's important on the policyholder side of the equation, to actually read that deductible language, because I have seen many times where company adjusters just go ahead and run a coinsurance calculation, and then they apply the deductible which really have … if the language supports that, should have been applied in the coinsurance calculations. Everybody just assumes deductibles are deductibles and how easy can that be, you just take the money off the claim. That often is not the case, so it's very important to read that language.

Marjorie: Okay, great, Jim did you have anything to add to that?

Jim: No I don't.

[00:21:00]
Marjorie: Okay, great. Craig can you tell us what policyholders can do to ensure that their policy coverage is adequate?

Craig: Yes. The easiest way is to … the easiest statement to make is to make sure you have enough insurance for value, and that value is either with the replacement cost value or the actual cash value. Replacement cost is probably the easier of those two to calculate for a policyholder, and/or an agent because there are several publications available, several methods, probably Marshall Swift although that guide is one that we see the most. Often times Loss Control Reps come out from the company, and they will complete those calculations for the agent in writing that coverage, but if you're the policyholder and you know what your building is worth.

[00:22:00] I want to talk about that for second, because a lot of people don't understand that on a replacement cost policy with coinsurance, that value predicated on the cost, to rebuild that structure when you lose it or when it's damaged I should say, when you have a loss. That can be a far different number than what somebody paid for a building, or what somebody calculated 10-15 years ago and you just carry that value forward, because those numbers change. If you have a replacement cost policy, you need to make sure that your coinsurance requirement is met, whatever that percentage is and figure that out.

Now if you have an actual cash value policy, it gets a little more complicated because … in Michigan here we've discussed until we're all blue in the face, what this actual cash value means, and the courts in Michigan have not defined actual cash value, they simply
[00:23:00] say it's actual cash value, and we're left with this broad evidence role interpretation where most insurance companies will come in and say, "It's market value." They will say that when we're in a down market. Most adjusters, public adjusters and policyholders, know that means replacement cost less depreciation.

Most of these policies actually talk about the calculation, but it's not defined in most policies. I've seen more and more today that especially policies written in Michigan, that they are starting to define that and I've seen it both ways. I've seen actual cash value in a policy defined as replacement cost less depreciation and I've seen it defined as a market value, but in any case, you have to make sure that that percentage is met. You have a little more leeway on actual cash value policy, because after a loss you can always at least have an open debate on what that actual cash value is, but the coinsurance percentage
[00:24:00] gets applied to either one of those valuations, either replacement cost or actual cash value.

You got to make sure that your calculations are up to date, and as a policyholder, that you really know what those valuations mean.

Marjorie: Thank you Craig. Scott did you have anything to add to that?

Scott: Yeah. I think as far as the best way to avoid a coinsurance penalty is to try when you purchase the policy to not have one ahead of time before the loss happens, and I believe Jim and Todd mentioned some agreed value, personally that's in my opinion if you can get an agreed value, then the coinsurance penalty potential issues become moot at that point. Because when you have the agreed value it's usually checked off on the declarations, or "Dec page" and it can be done for … on a commercial policy for building, business, personal property for business income coverage - one or all.

[00:25:00]

Another one on the commercial policy that I see that can somewhat mitigate the potential of coinsurance and get your limits higher is the utilization of an inflation guard increase in your limits that usually occurs on an annual basis. But you could also get partial increases off the inflation guard; so if you have a loss that's half way through the policy period, you're still entitled to 50% of what that inflation guard would have been on a 12-month basis. On the residential side of things, you can add such things to an endorsement called a "guaranteed replacement cost" endorsements, although you don't see the 100% guaranteed as much anymore.

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Normally you'll see something like 125% extended replacement cost endorsement that's added. Then finally, I think going in if you know there is going to be a coinsurance clause, you have to really check the accuracy of who did the calculation for your limits. If it's your broker doing it, what methodology did he use to calculate it, and do you agree with his proposed limits that he wants to place on the policy? A program called Marshall Swift … in fact MSB is most often used by the insurance carriers and their brokers to determine value ahead of time to place on the policy, however, as with pretty much any computer program, what information comes out of it, is only as good as what is inputted into it.

[00:27:00]

So If your broker or the underwriter does not know what he's doing, when he's using Marshall & Swift/Boeckh, or is using bad data, that could basically skew the amount ahead of time and set you up, for a potentially large coinsurance policy after the fact when you've had a claim. There are other programs out there. There are other options that consumers have to weigh in on, whether they feel the valuation that the insurer or the broker is putting on the policy in the first place, is accurate. And I think all those things need to be utilized and taken into consideration prior to having a loss and finding out you're faced with a very substantial coinsurance penalty.

Todd: Scott, this is Todd. Have you been seeing more and more of the inflation guard applied?

Scott: I see it a lot. I see it quite often. It's also something that I find that insurance adjusters after the claim happens to miss, or they don't the insured the benefit of the doubt on it.

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Because I actually have put together an Excel spreadsheet that all you have to do is, plug-in the days of each month. If you had 31 days in January et cetera, 28 in February, the loss occurs on in March 5th, you throw in all those numbers and the five for the month for

March, put in the inflation guard percentage and that should spit out at you the inflation guard limits that you would have come in or that's applicable. I think I just overlooked loss added by these adjusters or else they're just not aware of it or they forget about it, and most insured are not savvy enough to realize that they are entitled to that.

Craig: Hey Scott, this is Craig, excellent point. Two points I want to make based on Scott's comments. I have many, many insureds call me after losses because they're renewing

[00:29:00] their policy, and they ask me, "What's the best thing I can do?" I completely agree with Scott, the best thing you can do is get an agreed value policy. I'm not an agent, never been agent so I don't know what the premium ramifications of that endorsement are, but anytime a loss hits my desk and I look at the coverage which I always do first, I'm actually relieved when I see that box checked.

The other thing I was going to ask Scott was, I've had adjusters actually company adjusters, actually try to argue the point that the additional funds available under an inflation guard, and/or a guaranteed replacement cost endorsement, are not applicable in calculating coinsurance, which I find an unbelievable statement to make, but I've had it made to me on several occasions. Have you ever had that push back?

[00:30:00]

Scott: No I have not and I guess my response would be the inflation guard is … it's technically added on the Dec page. It's not really some specific endorsement funding. They usually show the inflation guard after the limits that are stated there. The way I read it is always front to back when I start reading these insurance policies, and to me, you have your limits, you show your inflation guard, bingo you already have it, before you even come to the coinsurance part of it. I suppose you can make an argument either way, but I haven't really …

I haven't really seen a lot of push back on that, but then again I've dealt with a lot of adjusters, that even some might consider to be senior adjusters, that don't quite get the coinsurance issue either. I think it's important that you stick with how you would read the policy, and if inflation guard percentage falls right below the policy or the stated

[00:31:00] policy limits, it immediately is applied to that before anything else occurs.

Craig: Okay, thanks really good point.

Marjorie: Thank you Craig and Scott, Jim did you have anything to add to that topic?

Jim: Yes, I encourage appraisals and we use them perhaps on a 10-year basis or something like that for large property schedules. I want people to have an appraisal basis if we can get it, but if not, we use estimates to get it at 100%. We use blanket coverage, inflation guard (if you can get it which is not often provided on large accounts), and of course an agreed amount endorsement to get rid of the penalty all. There's an issue that I think is really important to this conversation about what policyholders need to do, and we'll come down to the agent question in a bit, but a huge, huge gap involves people with leased property, where perhaps the tenant is to insure interior finishings.

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[00:33:00] The owner is insuring the shell. I ran into a situation here in Nashville where a party that owned a 16-18 story office building, Class A building, had the tenants to insure the interior finishing to the tune of when it was installed in the late '80's, in early 90's probably a quarter of a million dollar interior finishing per floor. That was the tenant's responsibility, but the owner of the building had insured the shell. They were co-insured by a minimum of 40% and similarly, if you were a tenant and you have the obligation to insure the interior finishings, and on this particular account there was an accounting firm in the building and they had their personal property insured, but they occupied two stories and by this time, the interior finishing costs were about half a million per floor.

They hadn't addressed that issue at all. They are issues in assessing risk that are very germane to addressing adequate property valuation, so as to avoid the coinsurance penalties and some from the beginning.

Todd: Thank you Jim, I heard you mentioned earlier on a larger portfolio you're doing appraisals every 10 years. I'm seeing more and more of it being done every three to five years. Especially with some of the crazy appraisals we've seen post-large storm. A couple of you all mentioned agents, are you all seeing or running across … any of you can answer this, running across situations where the agent or broker is providing valuations. Because I'm seeing less and less of this with clients that we're working with.

[00:34:00]

Craig: This is Craig, in Michigan. It's a really good question. The answer, my answer is yes, in fact I'm litigating a case right now where the agent had written to the policyholder three months before the building burnt to the ground, that the actual cash value limit was correct. This policy actually defined that actual cash limit as being market value. The insurance co said that was this is not a coinsurance problem, but it's a valuation problem where the agent actually wrote a letter three months before saying, "The actual cash value on your Dec sheet is correct," and three months later my client received 10 cents on a dollar based on a market value assessment.

[00:35:00] I'm litigating that case right now and I would suspect there is more and more of these at least in Michigan, because we've had this huge market value problem. I think agents are going stop making comments on value, which is kind of detrimental to the whole insurance process, but I think out of survival mode they're going to stop.

Todd: Craig I think that sounds more like an E&O, an errors and omissions claim on a mission plan to me.

Craig: Yeah, it is actually.

Marjorie: Okay great, Jim did you have anything to add to that, I know that you were speaking but I had you to finish your comment.

Jim: There is one other issue.

Marjorie: Okay

Jim: Another snake in the grass in regard to valuation is a margin clause. You have, for example, a public entity with $500 million or a billion and a half dollars in property over a wide area, or a Board of Education with the potential property. The carrier will insert a margin clause and it's a huge problem, as personal property is moved from one facility to another. That cannot … it's not a coinsurance issue, it is a penalty issue arising out of the margin clause. I go to considerable length to avoid dealing with people, who bring such snakes the table. I don't know, nothing else add to that.

[00:36:00]

Todd: Jim, I've used margin clause with the exception of contents coverage. Used it for buildings to have increased value on a stated value policy, and found it to be very effective and in some cases, the only way to deal with that.

Jim: I will agree with that, you can use it but what I usually find is they have one and nobody knew it, or you discover it after the loss. To give you a good planning sample … A Board of Education had a little over 500 million in property, and of course Board of Education facilities are static, with the exception of the school book depository. During the summer, they brought the old books out and then the new ones were shipped in to be distributed during early summer, and at the peak of this particular account, the school books or the new book inventory in the building, they had a catastrophic loss.

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It can be a real penalty and most people have no idea that there is a margin clause in an account or what it does to you.

Marjorie: Thank you Jim.

Todd: At this time, do you any of you have any other comments you would like to add to this topic of coinsurance that we may not have covered?

Craig: It's Craig. I was just looking down this list of questions so, it's the last question. That question regards what options policyholders have. I think there's been some discussion on that before but when all hope is lost, when you have, when you're facing a coinsurance penalty, and you've made the arguments on value and you've lost and you're facing down a coinsurance penalty for your client, one thing I always considered doing and it's an option of the policy and I think one of the other gentlemen referenced this, the policyholder has the option of electing to file an actual cash value claim. In an actual cash value claim, when you revert to that, your coinsurance should be … I have had some pushback on that, but we've won every one of those pushbacks.

[00:38:00]

Your coinsurance penalty, or requirement should be calculated on the actual cash value structure. That can be hugely beneficial. In Michigan we do a lot of roofs, we have a lot of high winds here and we have a lot of roofs coming off, and if you have a roof that's a relatively newer roof and that's the limit of your claim, well the coinsurance gets calculated on the actual cash value of the building, not the actual cash value of the roof. You can often times, by selectively looking at what you're actually going to claim, and looking at what depreciation will be applied to what you're claiming.

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You can in many cases eliminate a huge coinsurance penalty, by simply electing to go to an actual cash value settlement, if the actual case value settlement is more than a replacement cost settlement, less the coinsurance penalty so I always calculate it both ways.

Todd: Yeah, Craig I was getting ready to ask, obviously you must calculate those both ways before presenting them to your client.

Craig: Yes, I do, before that ever comes up I calculate it at both ways, good point.

[00:40:00]

Jim: Craig, I agree with you a 100%. I've been in involved in, obviously numerous large losses, but one that comes to mind is that of a $14 million manufacturing loss in California that I handled that basically, it applies to business personal property just as well and in thinking what Craig said, you want to do it for all lines of coverage if possible. We were trying to get over a $6 million limit that was applicable to the business personal property coverage, and of course the way the insurance carrier's adjuster immediately came out the gate, was with the replacement cost plus the coinsurance penalty.

However, when you figured it on the actual cash value basis, we were actually able to exceed the policy limits on an actual cash value basis, which at that point it is what it is. Whether you get there with the penalty or not or whether you get there with the ACV, it's a limits claim but had that option never been brought up to the client, they would have never known, they would have just assumed that they can never reach their policy limits on that line of coverage.

[00:41:00]

Craig: Absolutely, nice job on that.

Scott: In keeping with what policyholder options are, of course I'm a little biased but I think one of the biggest options I think is to a hire a confident public adjusting firm, such as Adjusters International, to assist you with that and look your options over. We all know we're willing to look at everybody's claims for free of course, going in see if we can add any value to it. I have a list of a couple other things, in making sure that first off, the coinsurance penalty is correct, and that they've done the calculation correct. You'd be surprised at how many company adjusters, don't quite understand the calculation of the concept.

Looking at your actual cash value option, making sure that depreciation is accurate and fair when calculating the ACV, or if you're in a state that uses market value to make sure that's fair, that can be a wide swinging number depending on how they calculate that or what appraiser they use to do so. Looking for any inflation guards that are on the policy and if all else still doesn't seem right, who calculated the initial valuation of the property, and that potential might exist or potentially no new claim against your broker. I know they're just a few little checklist items that I go through on each claim.

[00:42:00]

Marjorie: Thank you Jim, anyone else have anything you'd like to add?

Todd: Jim did you want to answer that?

Jim: No I don't thank you, they did a good job.

Craig: It's Craig. I based on that last was that Jim or Scott?

Scott: Scott.

[00:43:00]

Craig: Those are excellent points. You really have to look at the insurance companies, whether it's an independent adjuster or staff adjuster, you really have to look at that calculation. I just got done helping one of the guys here this morning where the adjusting staff adjuster had used … it's an ACV policy, there's no replacement cost option, but the staff adjuster had used a very, very low number of depreciation to calculate the coinsurance penalty. Basically most of the building is gone, so we're not cherry-picking what we're depreciating but he used a very low number of depreciation to calculate the coinsurance penalty, and then he used a very high number of depreciation, high percentage to calculate the loss.

That was brought to his attention in a phone call and he didn't have a really a good answer for that. Sometimes that's correct, because different things in a building depreciated at different rates, so when you're basically talking about everything in the [00:44:00] building, those two numbers should pretty much agree with each other. If you're going to use one number to figure out a penalty, you better be using the same number to figure out the loss. I don't know if we're wrapping this up guys and I use that term generically, Margie.

Marjorie: No, please go on.

Craig: There was one more question that I would really like to comment on, which is the question on your list of are brokers doing an adequate job. Did you want that question answered?

Marjorie: Sure, that would be great. We're running short on time but …

Craig: Yeah, let's go ahead.

Marjorie: … that seems to be good.

Craig: I'll make this really quick. I think that's a really good question and my answer to that question is, I don't know because every one of my policyholders that I have had to explain a coinsurance penalty to has said, "I didn't know that. That was never explained to me," and every agent I've ever talked to has said, "I thoroughly explained that to my policyholders." I think that's a really good question, and to be fair to the agency side of [00:45:00] the equation, I really don't know if I can answer that, because I wasn't there.

I don't know what's being said or what's not being said but I will tell you this, that 100% of my clients that I've had to explain a coinsurance policy to, have absolutely no idea what I'm talking about.

Todd: I'm seeing more and more in the market place where on the front end, where agents are putting explanations in their proposal, but not necessarily explaining them. They're in there, they checked off a box or done some due diligence on their own part, certainly, it's in their best interest from an E&O standpoint to explain everything that's being proposed. I am seeing it more and more, where I wasn't seeing it before, seeing it now more in detail, detailed explanations of coinsurance among other things in their proposals. Jim, you were going to say something.

[00:46:00]

Jim: Yes. I see it in the proposals and it'll have the illustration of did over should times the amount of loss, but working as a consultant with the insurance buyer what I see raising the question of coinsurance is general council. They'll learn that I am in the building and make a special trip down the hall and say, "We don't want a coinsurance penalty or a clause, and you have to take whatever steps based on the nature of these accounts to deal with those issues," but in terms of the public grasp of coinsurance and how the penalty applies, I don't think they're doing an adequate job at all.

Some of them do but it's very, very rare. I will share this, 15 or 20 years ago, I saw a study saying that about 70% of all the property in the United States was undervalued by [00:47:00] an average of 30%. I think recently the estimates are 60% are undervalued by an average of 20%, so there's some improvement in the marketplace but not enough.

Marjorie: Thank you very much, Jim. I'd like to thank all of our panelists for participating and sharing your expertise on coinsurance. Again, we had Craig Becker, Scott Eich, James Mahurin and C. Todd Thomas. We really appreciate your speaking with us on our very first episode of Adjusters International's Insurance Roundtable. Thank you very much.

Todd: It's been a pleasure.

Craig: Thank you Marjorie.

Scott: Thanks for the invitation.

[00:48:00]

Jim: Thank you.