THOUGHT LEADERSHIP

Property Coverage Common Pitfalls

4 blind spots to avoid

How well do you understand the coverage requirements and exclusions in your insurance policy? Coinsurance. Mandatories. Replacement cost. Flood insurance. What do these mean and how will they affect your insurance coverage? There are several common pitfalls policyholders have when it comes to their property coverage, and it's important to understand them to make sure you have the coverage you need.

Here are four common blind spots regarding property coverage. Better understanding them will help you avoid potentially large unnecessary costs and insufficient coverage in the event of a claim:

1. Coinsurance

Most commercial property policies have a coinsurance clause. The coinsurance clause ensures that clients carry adequate coverage to protect a business's personal property.

For example, if your building is valued at $200,000, it would need to be insured for that amount in order to protect its full value. If a policy has a clause with a coinsurance percentage of at least 80%, that means you must insure the building for at least $160,000 to avoid a coinsurance penalty at the time of a loss.

Insurance companies include this clause to ensure policyholders provide an appropriate value for the buildings they're insuring and pay a fair premium for the associated risk. Don't assume you'll get the coverage you need by guessing the value of your buildings. Make sure you have an appropriate valuation and meet all the coinsurance requirements if applicable.

2. Mandatories

Let's keep using the scenario above. If your insurance policy mandates a coinsurance and you only covered your property for $150,000, your insurance company could penalize you. You may not get the full value of your damages covered, even if they fall within the face value limits of your policy because the 80% coinsurance requirement was not met.

Let's break down how mandatories and coinsurance work:

- You have a fire that causes $100,000 worth of damage.
- You file a claim.
- Your property insurance has a limit of $150,000 and a deductible of $5,000.
- Per your insurance clause, you needed to purchase at least $160,000 in coverage, which is the 80% coinsurance requirement.
- Because the coinsurance requirement was not met, the penalty is determined by the ratio of the amount carried divided by the amount required: $150,000/$160,000 =.0937.
- Because your loss was $100,000, your insurer will only pay you $93,700 minus your $5,000 deductible.
    - The penalty in this case is $11,300 for not being insured to at least 80% of the value of your property.

Make sure you look over the details of your policies and meet all your coinsurance and mandatory requirements.

Some other insurance mandatories could include:

- **Claim notices**
- **Claim forms**
- **Contract changes**
- **Premium grace period**
- **Legal actions**

Speak with your insurance professional and learn about all of the mandatory clauses in your property coverage policy.

3. Replacement cost vs. actual cash value

Replacement cost will cover the full value of the item in question, whereas actual cash value (ACV) pays for the item with depreciation.

If your policy offers replacement cost, the first check cut after you file a claim is for the ACV. Most insurance companies pay the ACV first to encourage clients to use the money to replace the item. When a client finally replaces the item, the rest of the replacement cost is paid under a separate check.

Speak with your insurance advisor to confirm if you have the replacement cost benefit in your policy, and make sure to replace your damaged item to receive your maximum benefit.

4. Flood insurance

Typically, you need to buy flood insurance as a separate policy from a commercial package. Most insurance companies can't include flood in their commercial package because they are specifically excluded from the policies.

Flood is defined as ground water seeping from the outside of a building into the inside space. Note that water damage coming from inside the building such as a broken pipe is covered under a regular commercial policy and is not a flood claim.

Flood coverage needs to be specifically endorsed into a package or be a separate policy. If your building is located in a flood zone, you'll most likely need a separate flood policy. Some companies may include flood as a part of their regular coverage, but it's imperative that you ask your insurance professional to ensure you are fully covered.

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