SECTION 1

Coinsurance / Page 1

a) Insured must maintain a specified limit of insurance in relation to the building value.
b) Limit expressed as a percentage (80%) of the building value.
c) Failure to do so results in the insured penalized through limiting their recovery from the insurer.

FORMULA: \[
\text{Did Carry} / \text{Should Have Carried} \times \text{Loss Amount} \quad (\text{Coinsurance} \% \times \text{Building Value})
\]

The Six Step Approach:

1(a) If there is mention of a Waiver of Coinsurance clause and a small loss amount, apply the Waiver first. If the loss amount is more than the amount calculated through the Waiver proceed to Step 2.

1(b) If the loss amount is the same as, or more than, the amount of insurance carried, the Coinsurance Clause is not applied. The insured’s recovery will be the same as the amount of insurance. This will save you doing steps 2 to 6.

2) Determine what the insured did carry (Amount of Insurance).

3) Determine what the insured should have carried (Coinsurance \% \times \text{Building Value}).

4) Divide what the insured did carry by what the insured should have carried = \%.

5) Apply the \% from Step 4 to the loss amount to determine the insured’s recovery (insurer pays).

6) Subtract the amount the insurer pays from the total loss amount to determine what the insured will pay.

WAIVER OF COINSURANCE

a) The amount of the loss will be paid in full if it is less than:

1) A specified percentage (2\%) of the amount of insurance carried AND
2) A specified amount ($5,000)

b) Insurer pays small claims in full if they are less than both the specified percentage and amount.
Case 1

If the owner of a building worth $600,000 buys $400,000 of insurance on a policy with an 80% coinsurance clause and a 2% coinsurance waiver, then suffers a loss of $16,000, his recovery under the policy (rounded up) will be

a) $10,600  
b) $13,400  
c) $14,800  
d) $16,000

**Step 1) Calculate Waiver of Coinsurance:**  
$400,000 \times 2\% = $8,000. The loss amount exceeds $8,000 so the coinsurance formula is applied.

**Step 2) Amount of Insurance Carried:**  
$400,000

**Step 3) Amount of Insurance Required:**  
80\% \times $600,000 = $480,000

**Step 4) \$400,000 / \$480,000 =**  
83\% (calculator used)

**Step 5) 83\% \times \$16,000 =**  
$13,333 rounded up to $13,400 as the insured’s recovery.  
The correct answer is **b**.

**Step 6) $16,000 - $13,400 =**  
$2,600 the insured pays (in case the question asks for this amount).

Case 2

If the owner of a building worth $250,000 buys $200,000 of insurance on a policy with a 90% coinsurance clause and a 2% coinsurance waiver, then suffers a loss of $40,000, his recovery under the policy (rounded up) will be approximately

a) $40,000  
b) $35,600  
c) $30,000  
d) $32,800

**Step 1) Calculate Waiver of Coinsurance:**  
$200,000 \times 2\% = $4,000. The loss amount exceeds $4,000 so the coinsurance formula is applied.

**Step 2) Amount of Insurance Carried:**  
$200,000

**Step 3) Amount of Insurance Required:**  
90\% \times $250,000 = $225,000

**Step 4) $200,000 / $225,000 =**  
89\% (calculator used)

**Step 5) 89\% \times $40,000 =**  
$35,556 rounded up to $35,600 as the insured’s recovery.  
The correct answer is **b**.

**Step 6) $40,000 - $35,600 =**  
$4,400 the insured pays (in case the question asks for this amount).
SECTION 1
Coinsurance / Page 3

Case 3

If the owner of a building worth $200,000 buys $150,000 of insurance on a policy with a 90% coinsurance clause and a 2% Waiver of Coinsurance clause and then suffers a loss of $8,000, his recovery under the policy (rounded to the nearest $100) will be

a) $5,000  
b) $6,400  
c) $6,700  
d) $8,000

Step 1) Calculate Waiver of Coinsurance: $150,000 X 2% = $3,000. The loss amount exceeds $3,000 so the coinsurance formula is applied.

Step 2) Amount of Insurance Carried: $150,000

Step 3) Amount of Insurance Required: 90% X $200,000 = $180,000

Step 4) $150,000 / $180,000 = 83+% (calculator used)

Step 5) 83+% X $8,000 = $6,667 rounded up to $6,700 as the insured’s recovery. The correct answer is c.

Step 6) $8,000 - $6,700 = $1,300 the insured pays (in case the question asks for this amount).

Case 4

If the owner of a building worth $250,000 buys $180,000 of insurance on a policy with an 80% coinsurance clause, then suffers a loss of $100,000, his recovery under the policy will be

a) $90,000  
b) $100,000  
c) $180,000  
d) $85,000

Step 1) Calculate Waiver of Coinsurance: Not Applicable as it is not mentioned.

Step 2) Amount of Insurance Carried: $180,000

Step 3) Amount of Insurance Required: 80% X $250,000 = $200,000

Step 4) $180,000 / $200,000 = 90% (calculator used)

Step 5) 90% X $100,000 = $90,000 as the insured’s recovery. The correct answer is a.

Step 6) $100,000 - $90,000 = $10,000 the insured pays (in case the question asks for this amount).
SECTION 1
Coinsurance / Page 4

Case 5

If the owner of a building worth $600,000 buys $400,000 of insurance on a policy with an 80% coinsurance clause and a 2% coinsurance waiver, then suffers a loss of $4,000, his recovery under the policy will be

a) $3,400  
b) $4,000  
c) $3,000  
d) $2,700

Step 1) Calculate Waiver of Coinsurance: $400,000 X 2% = $8,000. The loss amount is less than $8,000 so the $4,000 loss is paid in full. The coinsurance formula does not have to be applied, so the correct answer is b.

Case 6

If the owner of a building worth $125,000 buys $90,000 of insurance on a policy with an 80% coinsurance clause, then suffers a loss of $50,000, his recovery under the policy will be

a) $45,000  
b) $50,000  
c) $90,000  
d) $42,500

Step 1) Calculate Waiver of Coinsurance: Not Applicable as it is not mentioned.

Step 2) Amount of Insurance Carried: $90,000

Step 3) Amount of Insurance Required: 80% X $125,000 = $100,000

Step 4) $90,000 / $100,000 = 90% (calculator used)

Step 5) 90% X $50,000 = $45,000 as the insured’s recovery. The correct answer is a.

Step 6) $50,000 - $45,000 = $5,000 the insured pays (in case the question asks for this amount).
SECTION 1
Coinsurance / Page 5

Case 7

If the owner of a building worth $125,000 buys $100,000 of insurance on a policy with a 90% coinsurance clause and a 2% coinsurance waiver, then suffers a loss of $20,000, his recovery under the policy will be approximately

a) $ 20,000
b) $ 17,800
c) $ 8,800
d) $ 4,000

Step 1) Calculate Waiver of Coinsurance: $100,000 X 2% = $2,000. The loss amount exceeds $2,000 so the coinsurance formula is applied.

Step 2) Amount of Insurance Carried: $100,000

Step 3) Amount of Insurance Required: 90% X $125,000 = $112,500

Step 4) $100,000 / $112,500 = 89% (calculator used)

Step 5) 89% X $20,000 = $17,778 rounded up to $17,800 as the insured's recovery. The correct answer is b.

Step 6) $20,000 - $17,800 = $2,200 the insured pays (in case the question asks for this amount).

Case 8

If the owner of a building worth $200,000 buys $150,000 of insurance on a policy with a 90% coinsurance clause and a 2% Waiver of Coinsurance clause and then suffers a loss of $12,000, his recovery under the policy will be approximately

a) $ 9,600
b) $ 10,000
c) $ 10,800
d) $ 12,000

Step 1) Calculate Waiver of Coinsurance: $150,000 X 2% = $3,000. The loss amount exceeds $3,000 so the coinsurance formula is applied.

Step 2) Amount of Insurance Carried: $150,000

Step 3) Amount of Insurance Required: 90% X $200,000 = $180,000

Step 4) $150,000 / $180,000 = 83+% (calculator used)

Step 5) 83+% X $12,000 = $10,000 as the insured's recovery. The correct answer is b.

Step 6) $12,000 - $10,000 = $2,000 the insured pays (in case the question asks for this amount).
SECTION 2
Average Distribution Clause / Page 1

a) Property values in multiple buildings are difficult to monitor.
b) All property values in all the buildings are covered for a single insurance limit.
c) If the insurance limit is less than the total property value, the underinsurance is spread proportionately over all the buildings.

**FORMULA:**

1) Calculate % values at each location bear to the total value.
2) Apply % each location to the total amount of insurance (A.C.V.).

The Three Step Approach:

1) Add the property values in each building to determine the total value of the property.

2) Determine what percentage the property value in each building is of the total property value.  
   (Value per Building / Total Value = %)

3) Apply the percentage of property value in each building to the total amount of insurance.
Case 1

An insured owns three buildings. There is $100,000 worth of property in Building A, $50,000 worth of property in Building B, and $50,000 worth of property in Building C. The total amount of insurance carried is $100,000. In the event of a major fire in Building B, what would the maximum amount of insurance be for the property kept in that building?

   a) $ 100,000  
   b) $ 25,000  
   c) $ 50,000  
   d) $ 70,000

Step 1) Determine the total value of the property: $200,000

Step 2) Determine the % of property in each building:

<table>
<thead>
<tr>
<th>Building</th>
<th>Value of Property</th>
<th>Total Value</th>
<th>% of Property</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building A</td>
<td>$100,000</td>
<td>$200,000</td>
<td>50%</td>
</tr>
<tr>
<td>Building B</td>
<td>$50,000</td>
<td>$200,000</td>
<td>25%</td>
</tr>
<tr>
<td>Building C</td>
<td>$50,000</td>
<td>$200,000</td>
<td>25%</td>
</tr>
</tbody>
</table>

Step 3) Multiple the % by the amount of insurance: 25% X $100,000 = $25,000. This is the maximum amount of insurance available for the property in Building B. The correct answer is b.
SECTION 2
Average Distribution Clause / Page 3

Case 2

An insured owns four buildings. The values of the property kept in each building are:

<table>
<thead>
<tr>
<th>Building</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>$500,000</td>
</tr>
<tr>
<td>B</td>
<td>$200,000</td>
</tr>
<tr>
<td>C</td>
<td>$200,000</td>
</tr>
<tr>
<td>D</td>
<td>$100,000</td>
</tr>
</tbody>
</table>

The total amount of insurance carried for the property is $600,000. A major fire in Building A totally destroys the property kept in that building. What would the maximum amount of insurance be for that property?

a) $ 300,000  
b) $ 500,000  
c) $ 200,000  
d) $ 100,000

Step 1) Determine the total value of the property:  
$1,000,000

Step 2) Determine the % of property in each building:  

<table>
<thead>
<tr>
<th>Building</th>
<th>% of Property</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>50%</td>
</tr>
<tr>
<td>B</td>
<td>20%</td>
</tr>
<tr>
<td>C</td>
<td>20%</td>
</tr>
<tr>
<td>D</td>
<td>10%</td>
</tr>
</tbody>
</table>

Step 3) Multiple the % by the amount of insurance:  
50% X $600,000 = $300,000. This is the maximum amount of insurance available for the property in Building A. The correct answer is a.
SECTION 3
Other Insurance (Rateable Contribution) / Page 1

a) More than one insurer may provide coverage for a single building (large commercial).
b) Insurers must pay their share of a loss in the same proportion as the amount of insurance they provide under their policy bears to the total amount of insurance under all policies covering the same property.

**FORMULA:** \[
\text{Individual Policy Limit} \div \text{Total Amount of Insurance} \times \text{Loss Amount}
\]

The Three Step Approach:

1) Add the individual policy limits together to get the total amount of insurance.
2) Determine what percentage the individual policy limit is of the total amount of insurance.
3) Apply the percentage of the individual policy limit to the amount of loss.
Case 1

An insured owns a commercial building covered by four insurance policies underwritten by four different insurers. Insurer A covers $1,000,000, Insurer B covers $500,000, Insurer C covers $250,000 and Insurer D also covers $250,000.

A major fire causes $500,000 to the building. What portion of this loss would Insurer B pay?

a) $250,000  
b) $125,000  
c) $62,500  
d) $500,000

Step 1) Determine the total amount of insurance:

\[ $1,000,000 + $500,000 + $250,000 + $250,000 = $2,000,000 \]

Step 2) Calculate the % each insurer covers proportionate to the total amount of insurance:

<table>
<thead>
<tr>
<th>Insurer</th>
<th>Insurance Amount</th>
<th>Total Insurance Amount</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>$1,000,000</td>
<td>$2,000,000</td>
<td>50%</td>
</tr>
<tr>
<td>B</td>
<td>$500,000</td>
<td>$2,000,000</td>
<td>25%</td>
</tr>
<tr>
<td>C</td>
<td>$250,000</td>
<td>$2,000,000</td>
<td>12.5%</td>
</tr>
<tr>
<td>D</td>
<td>$250,000</td>
<td>$2,000,000</td>
<td>12.5%</td>
</tr>
</tbody>
</table>

Step 3) Multiple the % for Insurer B by the amount of loss:

\[ 25\% \times $500,000 = $125,000. \text{ The correct answer is } b. \]