Homeowners' Coinsurance Calculation Examples

Insured Property Information

Total Insurable Value (TIV):	$300,000
Coinsurance Required:	80%
Deductible:	$500
Amount of Loss:	$50,000
Age of Home:	5 Years
Estimated Useful Life:	40 years

Inadequate Limits of Coverage

Amount of Insurance Carried - "Did"	$200,000
Amount of Insurance Required (TIV x Coinsurance) – "Should" • ($300,000 x 80%)	$240,000
Coinsurance Penalty Calculation Factors 1. Did / Should ($200,000 / $240,000) 2. Loss Amount 3. Deductible	 1. 0.833 2. $50,000 3. 500
Coinsurance Penalty Calculation: (1. x 2.) – 3.	(0.833 x $50,000) - $500
Amount of Payment (From Coinsurance Penalty Calculation Above)	$41,150
Actual Cash Value of the Loss Factors 1. Age of Home 2. Useful Life 3. Loss 4. Deductible	 1. 5 years 2. 40 Years 3. $50,000 4. $500
ACV Loss Settlement Calculation: ((2.-1.) / 2.) x 3. - 4.	(35/40) x $50,000 - $500
Actual Cash Value of the Loss	$43,250

In the above scenario, the ACV of the loss is higher than the result of the coinsurance calculation, thus the insured receives the $43,250 ACV. The homeowners' policy states that the insured gets the GREATER of the ACV of the loss or the coinsurance calculation.

Obviously the estimated useful life is solely for example purposes; each situation will vary as the definition of ACV is replacement cost at the time of the loss less physical depreciation. Based on use and environment, some houses depreciate faster than others.

Assume the house in this example is eight years old, the ACV of the loss would be $39,500; meaning that the insured would be paid the coinsurance calculation-producing $41,150.