



The Co-Insurance Clause

In an insurance contract, if the amount of insurance stipulated is lower than the value of the property (a case of under-insurance), the indemnity paid in the event of a loss could be capped and thus not cover the total cost of damages.

In the event of a **total loss**, the indemnity is limited to the insured amount. It is therefore advisable to choose an amount of insurance equal to the value of the insured property or its replacement cost, if your contract contains a replacement cost clause.

In the event of a **partial loss**, you might receive a proportional indemnity. Section 2493 of the *Civil Code of Quebec* provides for the application of a 100% co-insurance clause; however your insurance contract might stipulate a co-insurance clause with a different percentage, for instance 90% or 80%. Regardless of the percentage (100%, or less), the application of the co-insurance clause will affect the amount of the indemnity you receive.

WHAT IS THE CO-INSURANCE CLAUSE?

To receive an indemnity that fully covers the damages incurred in the event of a partial loss, you must insure your property for a minimum amount that corresponds to the percentage mentioned in the co-insurance clause. If you choose a lower amount, you may have to cover part of the cost of the damages yourself.

It is therefore important to:

- choose a sufficient amount of insurance—an amount that takes into account the value of your property (ideally determined through a professional appraisal);
- notify your agent or broker should the value of your property change during the term of the contract.

The following table will help you to better understand the co-insurance clause. Insert the amounts that best fit your needs.

		EXAMPLE 1 <u>Sufficient</u> amount of insurance	EXAMPLE 2 <u>Insufficient</u> amount of insurance	Your needs
A	Value of insured property	\$1,250,000	\$1,500,000	
B	Amount of insurance stipulated in the contract	\$1,000,000	\$1,000,000	
C	Co-insurance clause percentage	80%	80%	
D	Amount required to comply with the clause (box C x box A)	\$1,000,000	\$1,200,000	
	The amount in box B is therefore	<u>Sufficient</u>	<u>Insufficient</u>	



THE CONSEQUENCES OF NON-COMPLIANCE

If the amount of your insurance does not match the percentage indicated in the co-insurance clause:

- You might have to absorb a portion of the cost of damages, even if the amount of the damages is lower than the amount of insurance stipulated in the contract.
- The amount of damages you will have to absorb will depend on the difference between:
 - the amount of insurance **stipulated in your contract**
 - and
 - the **minimum amount of insurance required** to comply with the co-insurance clause.

Effect on the Amount of the Indemnity

In the event of a partial loss, the claims adjuster uses the following formula to calculate the indemnity to be paid to the insured:

$$\frac{\text{Amount of insurance stipulated in the contract (box B) X Amount of damages (box E)}}{\text{Minimum amount of insurance required to comply with the clause (box D)}}$$

Thus, as per the examples above, if you suffer a partial loss causing \$600,000 in damages:

		EXAMPLE 1	EXAMPLE 2	Your situation
B	Amount of insurance stipulated in the contract (see preceding table)	\$1,000,000	\$1,000,000	
E	Amount of damages	\$600,000	\$600,000	
	Calculation: $\frac{\text{box B} \times \text{box E}}{\text{box D}}$	<u>$\frac{\\$1,000,000 \times \\$600,000}{\\$1,000,000}$</u>	<u>$\frac{\\$1,000,000 \times \\$600,000}{\\$1,200,000}$</u>	
F	Total indemnity payable after applying the co-insurance clause	\$600,000	\$500,000	

In example 2, the amount of insurance stipulated in the contract does not comply with the amount required by the co-insurance clause. You would only be entitled to collect a portion of the required indemnity since you would receive \$500,000 of the \$600,000 in damages suffered, even if the loss is less than the amount of insurance stipulated in your contract.

If you have any concerns, in particular regarding the amount of insurance stipulated in your insurance contract and/or the co-insurance clause, please speak to your damage insurance agent or broker. Your representative is a regulated, certified professional who is trained to provide advice and answer your questions.