Sometimes in life, a surprise can be very exciting. When I think of surprises, I think of things like Christmas morning and the look on a child’s face when they get the gift they have been hoping for or the excitement of a surprise party for someone that gets to enjoy the company of their friends as they celebrate a special time. However, when you are talking about insurance and the financial well-being of your community, surprise is not a good thing. Today, I would like to spend a little time talking about the property insurance policy and some of the terms that one needs to pay special attention to avoid these surprises.
We all understand the basic concept of property insurance, which is the money needed to replace a damaged property. However, there are some potential items that can create surprises in regards to how the policy responds at the time of loss. Items such as co-insurance, deductibles, and other property policy types can be hard to understand and create unexpected surprises that can be avoided if they are taken care of prior to the loss.

The first potential surprise to avoid is the co-insurance clause. To do this, we need to understand what is meant by co-insurance and the impact at the time of loss. A simple way to understand co-insurance is what you should have insured the building for versus what you actually insured the building for. At the time of loss, the most you are going to get is the amount the building was insured for. Where co-insurance comes into play is when you have a partial loss to the building. Let’s say you had a $500,000 building that you had insured for $200,000 with an 80 percent co-insurance with a $1,000 deductible. For this building, you had a fire that created damage of $80,000 and a claim was filed for this amount. Here is how co-insurance would respond at the time of loss:

- Multiply the value of the property at the time of loss times the co-insurance percentage: $500,000 x .80 = $400,000
- Divide the limit of insurance by the figure determined in step 1 above: $200,000 / $400,000 = .50
- Multiply the total amount of the loss by the figure determined in step 2 above: $80,000 x .50 = $40,000

WHAT HAPPENS WHEN THE UNDAMAGED PORTION HAS TO BE BROUGHT UP TO THE CURRENT CODE? THIS IS PAID FOR BY HAVING ADDITIONAL PROPERTY INSURANCE CALLED LAW AND ORDINANCE COVERAGE.
Another item that can be a surprise is the deductibles and how they apply. In Florida, we have several different names for deductibles and each of them can be applied differently. Wind deductibles mean any type of wind damage from hurricane, tornado, or any other type of wind. Hurricane deductibles usually only apply if the damage is caused by a named storm. AOP (All Other Peril) deductible applies to every other type of covered claim. These different types can create a big surprise in how the deductible applies if you have wind damage from anything other than a named stormed. Let’s go back to the building above and assume we have properly insured our building to a value of $500,000 with a five-percent wind deductible and $1,000 AOP deductible. Based on this, if we had damage from a tornado, our wind deductible would be $25,000, however, if we had a five-percent hurricane deductible, our deductible then would be $1,000. This surprise is easily avoided by understanding the type of deductible you have and being prepared financially for that at the time of loss.

In addition to the type of deductible, the way they apply can be different. Most of these deductibles are figured on a percentage basis, such as a five-percent wind deductible. The question then becomes how is that percentage figured? There are usually two ways the percentage is applied, TIV (Total Insured Value) or per building. If you have five buildings valued at $1,000,000 each, your total insured value is $5,000,000, with a total wind deductible

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of $250,000. In the same scenario with a per building deductible, you would have a $50,000 per building deductible. This can be a big surprise at the time of loss if you only have two buildings damaged and your wind deductible is a five-percent TIV ($250,000) versus per building (two buildings at $50,000 each or $100,000).

Another surprise in property insurance can happen when you have a building that is partially damaged. Normally, property insurance only pays for the portion of the building that was damaged. What happens when the undamaged portion has to be brought up to the current code? This is paid for by having additional property insurance called law and ordinance coverage. This can be extremely important if you have older buildings or the local building code has been updated.

In this article, I have shown you some potential bad financial surprises related to the property insurance policy and how to avoid them. In addition to this, I would encourage you to find an experienced agent that you can trust. Please sit down with this agent to talk about all aspects of your property to ensure proper coverage is in place for a potential loss. Remember a good price does no good at the time of a claim if there is not adequate coverage for that item.

Randy Jones, CIC is the owner of Westgate-Jones Insurance, a statewide insurance agency, representing many of the best insurance companies in Florida. For more information, call (877) 801-8542 or e-mail randyj@wjins.com.