



# The Co-insurance Clause

## WHAT IS THE CO-INSURANCE CLAUSE?

The co-insurance clause is a **calculation method** used to determine **the amount of insurance sufficient** to cover the cost of replacing one's insured property. Your agent or broker must explain to you the risks of being underinsured—only then will you be able to make an informed choice.

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 that is equal to the value of the insured property, or to its replacement cost if your contract includes a replacement cost clause.

In the event of a **partial loss**, you could receive a proportional indemnity that has been reduced pro rata to the amount of the shortfall. Article 2493 of the *Civil Code of Quebec* provides for the application of a co-insurance clause of 100%. Your insurance contract might nevertheless stipulate a different co-insurance clause of 90% or 80%. Regardless of whether the percentage is 100% or less, the application of the co-insurance clause will affect the amount of compensation you receive.

To receive an indemnity that fully covers the damages in the event of a partial loss, you must insure your property for an amount that corresponds at least to the percentage stipulated in the contract's co-insurance clause, if there is one (or 100% if there is no such clause in the contract). If you choose a lower amount, you might have to assume a portion of the cost of damages. To avoid finding yourself in this unfortunate situation, it is important to:

- Choose a sufficient amount of insurance—one that takes into account the value of your property (ideally, as determined by a professional appraiser);
- Notify your agent or broker of any change in the value of your property during the term of the contract.



## THE IMPACT OF NOT COMPLYING WITH THE CO-INSURANCE CLAUSE

If the amount of insurance is lower than the amount required according to the percentage stipulated in the co-insurance clause (or, by default, 100% of the replacement value of the insured property):

- You might have to absorb the cost of a portion of the damages, even if the amount of damages is lower than the amount of insurance stipulated in the contract.
- The amount of damages that 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.

### Impact on the amount of the indemnity (compensation)

In the event of a partial loss, the claims adjuster uses the **following formula** to calculate the indemnity the insured will receive:

$$\frac{\text{Amount of insurance in the contract (Box B)} \times (\text{Amount of damages} - \text{deductible (Box E)})}{\text{Minimum amount of insurance required to comply with the clause (Box D)}}$$

The following table will help you better understand the co-insurance clause in the event of a partial loss. Enter the amount of insurance that meets your needs.

First, the table shows the calculation to determine the “minimum amount of insurance” required for compliance (column D). Next, it shows the potential impact on the indemnity payable in the event of a partial loss should there be a shortfall.

In the following examples, if you suffer a partial loss causing \$300,00 in damages, the impact on the amount of the indemnity will be as follows (assuming a \$1,000 deductible):



## Fact Sheet

	A	B	C	D		E		
	Value of property to be insured	Amount of insurance purchased, as indicated in the contract	Co- insurance percentage in the contract	Amount required to comply with clause C x A	The amount in box B is:	Amount of damages	Calculation of the indemnity $B \times (E - \text{deductible}^{**})$ D	Indemnity payable
Example 1	\$600,000	\$600,000	100%*	\$600,000	Sufficient	\$300,000	$\frac{600,000 \times (300,000 - 1,000)}{600,000}$	\$299,000
Example 2	<b>\$600,000</b>	<b>\$480,000</b>	<b>100%*</b>	\$600,000	<b>Insufficient</b>	\$300,000	$\frac{480,000 \times (300,000 - 1,000)}{600,000}$	\$239,200
Example 3	\$600,000	\$540,000	90%	\$540,000	Sufficient	\$300,000	$\frac{540,000 \times (300,000 - 1,000)}{540,000}$	\$299,000
Example 4	\$600,000	\$400,000	90%	\$540,000	<b>Insufficient</b>	\$300,000	$\frac{400,000 \times (300,000 - 1,000)}{540,000}$	\$221,481
Example 5	\$600,000	\$480,000	80%	\$480,000	Sufficient	\$300,000	$\frac{480,000 \times (300,000 - 1,000)}{480,000}$	\$299,000
Example 6	\$600,000	\$400,000	80%	\$480,000	<b>Insufficient</b>	\$300,000	$\frac{400,000 \times (300,000 - 1,000)}{480,000}$	\$249,167
Your situation								

\* For illustrative purposes only – insurance contracts do not contain 100% clauses.

\*\* The deductible must be subtracted from the amount of the damages and not at the very end of the calculation.



## ▶ Fact Sheet



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In examples 2, 4 and 6, the amount of insurance purchased indicated in the contract is insufficient to comply with the co-insurance clause. Out of the \$300,000 in damages suffered, you would only be entitled to a portion of the indemnity, even if the loss is less than the amount of insurance stipulated in your contract.

If you have any doubts—in particular with respect to the amount stipulated in your insurance contract, or the co-insurance clause—talk to your damage insurance agent or broker. He/she is a certified, regulated professional who has been trained to advise you and answer your questions.