

What can you do to control insurance costs during a downturn in business?

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Everybody is looking to conserve resources these days—businesses are hunkering down to make it through these challenging economic times. One of the ways organizations are looking to cut costs is by reviewing their insurance program. In this article, we will discuss the ways to evaluate your Commercial Property and Inland Marine insurance policies to ensure a cost-effective program.

While reducing property values may appear to be a cost saving factor, it is important to verify that your property and inland marine exposures are valued according to your insurance contract requirements. First, you will want to review your policy to determine its coinsurance basis.

Coinurance clauses, which apply to partial claims, indicate what percentage of the value of your property must be insured in order to be fully reimbursed for a partial loss. In other words, if it costs \$100,000 to replace the building, and you have 80% coinsurance clause, you must carry \$80,000 for the carrier to pay partial claims in full (less deductibles).

Likewise, if your coinsurance clause is 100%, then the property must be insured for the full amount. If it costs \$100,000 to replace the building, and you have 100% coinsurance clause, you must insure the building for \$100,000 in order to be reimbursed in full (less deductible) for partial claims.

The danger in failing to meet coinsurance requirements is that your loss is adjusted by the same percentage of the shortfall. In other words, if your building is insured for 50% of the appropriate coinsurance value, your claim settles for 50% less.

Another factor you'll want to consider is whether the policy is based on replacement cost or actual cash value.

Replacement cost reflects the current value to replace the property. If your Commercial Property insurance policy is based on replacement value, the contract requires you to insure the amount of what it would cost to rebuild the structure or replace the contents in today's marketplace, subject to the coinsurance clause.

On the other hand, actual cash value includes depreciation in determining the amount of insurance. Some property policies and many Inland Marine policies, such as scheduled Contractors' Equipment floaters, are based on actual cash value. In those cases, it is important to assess the original cost new and apply depreciation in accordance with the age of the property to determine the proper value to insure.

In today's economic climate, property values are declining, so it is important to determine accurate, yet updated amounts. Making sure your property is insured correctly helps you to pay the proper premiums for your exposures. Better yet, it protects your organization from financial chaos in the event of a loss.