

# Coinsurance

(redirected from *coinsurance clause*)

Also found in: [Dictionary/thesaurus](#), [Medical](#), [Financial](#), [Wikipedia](#).

## Coinsurance

*A provision of an insurance policy that provides that the insurance company and the insured will apportion between them any loss covered by the policy according to a fixed percentage of the value for which the property, or the person, is insured.*

Insurance is intended to spread the risk of any loss among every insured who purchases a particular type of policy from an insurance company and the company itself. The likelihood that every policyholder will suffer the loss that has been insured against is slim, and, therefore, an insurance company should be able to compensate those who have losses, if those policyholders have complied with the terms of their policies.

Coinsurance divides the risk of loss according to the amount of insurance purchased by each person through the payment of premiums. The size of insurance premiums is based primarily upon the value of the property covered by the policy. If a person fails to insure a property for an amount close to its actual cash value or replacement cost, then the person must accept a greater share of the risk of loss than someone who pays larger premiums to insure his or her property for an amount close or equal to its actual value.

In insurance policies for fire or water damage the coinsurance clause provides that property must be insured for a specific percentage, usually 80 percent of its actual cash value. The 80 percent provision is known as the New York Standard Coinsurance Clause. The owner of the property is liable for the remaining 20 percent of its actual cash value. If the insured party's property is only partially damaged, that person's recovery under the policy will be reduced in proportion to the amount of loss suffered.

For example, a homeowner has a \$120,000 fire insurance policy on her home, which is valued at \$150,000. The woman's coverage is 80 percent of the home's actual cash value. If her house is completely destroyed by a fire that is not [Arson](#), she will recover \$120,000, which is the full face amount of the policy. She is responsible for the remaining 20 percent of its actual cash value, or \$30,000. If a fire caused only \$20,000 worth of damages, the homeowner could recover only \$16,000, or 80 percent of the loss. The homeowner is a coinsurer for the remaining \$4,000, or 20 percent of the replacement cost of the property.

If that homeowner has purchased only \$36,000 worth of fire insurance, or 60 percent of replacement costs, thereby paying a lower premium than a policy with coverage for \$48,000, she would be responsible for a larger share of the damages incurred in the total or partial destruction of the property. The total destruction of the \$60,000 house will result in a recovery limited to the amount of insurance bought by the homeowner, or \$36,000. She is responsible for 40 percent of replacement costs. The recovery for the partial loss of \$20,000 will be \$12,000, or 60 percent of the loss, since recovery is reduced proportionately by the amount of actual loss.

Although insurance policies stipulate a specific percentage of loss that must be covered, an insured may purchase maximum insurance coverage for up to 100 percent of the replacement cost of the property covered by the policy. The premiums for such protection will be proportionately larger than the one for 80 percent of the property's actual cash value.

Coinsurance clauses in fire or water damage policies encourage property owners to purchase full or nearly full coverage. It is important for policyholders to periodically review their insurance policies to verify that their coverage adequately protects the value of their property.

In medical or [Health Insurance](#) policies, coinsurance has a similar meaning. The amount of expenses that a medical insurer will reimburse a policyholder is a fixed percentage—usually 80 percent—of the approved charges—the amount of a submitted bill which the insurer considers reasonable and will reimburse after the policyholder has paid the deductible, which is usually the first \$100 of medical expenses. The insured becomes a coinsurer for the remaining 20 percent of the approved charges as well as for the amount by which the individual medical bills exceed the approved charges.