



**Is your
property**

UNDERINSURED?

Be fully informed.

When you purchase property insurance, make sure you understand from your Agent what will and will not be covered in your policy. Buy no less than 80% of the property's replacement cost value. Do not exclude windstorm coverage. Include dwelling and contents, and avoid being forced-placed.



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What does it mean to be **UNDERSINSURED**?

UNDERSINSURED means your insurance policy for the insured property does not offer complete protection in the event of a catastrophic/natural disaster and a penalty will be applied which limits the amount you will receive on your claim.

Generally, underinsurance is associated with the policyholder's failure to insure at least *80% of the property's replacement cost value.

** This percentage is called the "coinsurance" percentage. Please note that this percentage may vary depending on the insurer and/or the type of policy purchased.*

What are your Insurance Company's Responsibilities?

Each Property and Casualty insurance company licensed and authorized to conduct insurance business in the Territory must:

1. Provide to its homeowner's insurance policyholders a full explanation of the term "underinsurance", to include examples of conditions under which a property may be determined to be underinsured and how this will affect the policyholder's ability to collect on an insurance claim for damages to their property;

2. Utilize the same "**Notice of Conditions of Underinsurance**" as a guide to ensure that each insured receives the proper explanation of what it means to be underinsured and, if they are underinsured, the proper notification as to how their insurance coverage will be affected in the event of a catastrophe.

3. Require that each applicant for homeowner's insurance that is seeking new or renewal insurance coverage, sign the Notice evidencing that their agent has provided an explanation of the term "underinsured"; the conditions for determining underinsurance; and that the policyholder understands the conditions and how the conditions will affect their insurance coverage in the event of catastrophe or other qualifying event.

4. Inform policyholders that the term "underinsured" can be caused by the following factors:

- a. The policyholder does not meet the 80% coinsurance requirement, which required the insured to maintain 80% of insurance in relation to the replacement cost of the insured property;
- b. The policyholder makes improvements to the insured property and does not disclose this to the agent, in order to obtain adequate coverage;
- c. The policyholder's lender, bank or loan servicer secured insurance coverage, known as "forced-placed insurance" for ONLY its financial interest in the insured property because:
 - i) the insurance that initially covered the property was cancelled,
 - ii) the insurance that initially covered the property lapsed, or
 - iii) the insurance covering the property was not sufficient and the policyholder did not secure their own replacement policy;
- d. The policyholder selected insurance coverage for dwelling only, and excluded coverage for contents, loss of use and other structures: **OR**
- e. The rate per square foot, which is usually market driven and is used to determine the cost, has increased. The replacement cost at the time of the loss may be greater than the replacement cost at the time the policy was initially purchased.

Examples of market driven factors are the costs of construction materials as well as the demand for contractors. The demand for both construction materials and contractors will increase the cost for repairs.

In addition, policyholders whose policies were renewed in 2017 after Hurricane Irma and Maria and are not scheduled to renew before the next hurricane season, may be allowed to elect to receive a midterm endorsement to increase their policy limit, if necessary, to an adequate level using a pro rata share **going forward**. The allowance of this option is subject to underwriting approval and with the realization that underwriting criteria differs from company to company. A policy cannot be back-dated.

SUM INSURED CALCULATION

To determine how much coverage is needed, multiply the total square footage of the property times the dollar value per square foot.

Dwelling/Livable area:
2,000 Sq. Ft @ \$150.00* = \$300,000

Porch:
200 Sq Ft. @ \$50.00* = \$10,000

Garage/Carport:
500 Sq. Ft. @ \$50.00* = \$25,000

Replacement Cost:
\$335,000 = \$335,000

Minimum Required Coverage:
(80% of RC) = \$268,000

** The dollar value is subject to market costs of comparable material and quality used in your neighborhood. These values may vary from time to time, so it is very important to review the Sum Insured amount on an annual basis.*

LOSS SCENARIO CALCULATION

Please review the following example to understand a loss payment where underinsurance exists:

Assumptions:
Replacement Cost (RC) = \$335,000

80% of Replacement Cost = \$268,000
(amount you should insure for)

Sum Insured = \$200,000
(please note that it is lower than 80% of RC)

Windstorm Deductible = 5% (of Sum Insured) = \$10,000

***Adjusted Loss Amount** = \$100,000

Calculations:
Coinsurance Penalty Calculation (underinsurance)
= Sum Insured DIVIDED by 80% of Replacement Cost
= \$200,000/\$268,000 = 74.63%

Policy will pay 74.63% of the loss LESS deductible.

Therefore, if the adjusted loss was \$100,000 the **policy will pay:** \$100,000 x 74.63% = \$74,630, **LESS \$10,000 (deductible)**

Loss amount to be paid = \$64,630

** For the purposes of this example, we have used replacement cost values. However, please review your policy to determine if you have a Replacement Cost (RC) or an Actual Cash Value (ACV) policy, which may include additional deductions for depreciation.*