

Insuring Your Property to Value: The Coinsurance Trap

Construction Costs Jumped — Did Your Building Limit Keep Up?

September starts budget season, and here's the budget line most businesses get wrong: their own building and equipment values. Construction and equipment costs have climbed sharply in recent years, while policy limits often just renew unchanged.

This month: replacement cost, coinsurance penalties, and why underinsurance is the quietest way to lose money at claim time.

Replacement Cost vs. Actual Cash Value

Replacement cost (RC) coverage pays to rebuild or replace with new materials of like kind; actual cash value (ACV) deducts depreciation first. On a 20-year-old roof or a 10-year-old machine, the difference is enormous — ACV settlements can be a fraction of what replacement actually costs. Know which basis applies to your building, your contents, AND specific items like roofs, which some policies carve out to ACV via endorsement. That roof carve-out is increasingly common and rarely explained.

How the Coinsurance Penalty Works

Most commercial property policies contain a coinsurance clause — typically 80% or 90% — requiring you to insure to at least that share of full value. Fall short and EVERY claim is penalized proportionally, even small ones. Example: a building worth \$1M insured for \$600K under 80% coinsurance means you carried 75% of what was required — so a \$100,000 kitchen fire pays roughly \$75,000, minus deductible. The penalty isn't a technicality; it's the most common unpleasant surprise in commercial property claims.

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WHY WORK WITH JAY

- 46+ years serving Kansas City businesses
- Licensed in Missouri & Kansas
- Access to 50+ admitted & E&S markets
- Independent — I work for you, not one carrier
- Risk management consulting included

DID YOU KNOW?

- Tax-assessed value and market value both routinely differ from reconstruction cost — sometimes by 40% or more.
- Agreed value endorsements eliminate the coinsurance penalty when values are documented at renewal.
- Roof payment schedules that depreciate by age are appearing on more commercial property renewals every year.

FREE COVERAGE GAP ANALYSIS

Most business policies I review have at least one gap the owner never knew about — underinsured property, a missing coverage, or an exclusion buried on page 40. Send me your dec pages and I'll give you a straight, no-obligation second opinion.

PRO TIP

PRO TIP FROM JAY:

Read your property dec page for two words this month: 'coinsurance' and 'ACV.' Then ask one question — if my building burned Friday, what would it cost to rebuild at 2026 prices? If your limit and that number are far apart, call me before your renewal, not after your claim.

Fixing Values the Smart Way

Update building limits using current construction cost per square foot for your class — not the tax assessment and not the purchase price, neither of which measures rebuild cost. Consider an agreed value endorsement, which suspends the coinsurance penalty, and inflation guard, which raises limits automatically each year. For equipment, refresh your schedule with today's replacement prices. An hour of valuation work at renewal buys claim certainty — the entire point of the premium you're already paying.

CLIENT WIN SPOTLIGHT

A client's building had been insured at the same \$850K limit for six years while construction costs soared. We re-valued it at \$1.24M and added agreed value. Fourteen months later a major fire claim settled at full replacement — no coinsurance penalty, no negotiation, no surprise.

RECIPE OF THE MONTH: TAILGATE CHILI

Brown 2 lbs ground beef with onion and garlic. Add chili powder, cumin, crushed tomatoes, kidney beans, and a splash of dark beer. Simmer 2 hours. Top with cheddar and green onion — Chiefs season fuel.

FREE BUSINESS RISK MANAGEMENT MANUAL

Ask about my complimentary Business Risk Management Manual — workplace safety basics, incident documentation, employee training checklists, and disaster preparedness. Carriers reward businesses with a written safety program. Free to clients and prospects — just call or email.

WHEN DID SOMEONE LAST ACTUALLY READ YOUR POLICY?

When did your building limit last change? If the answer is 'never' or 'I don't know,' my free valuation review will pay for itself the day you need it.

Call or text Jay today: 816-384-7738 | jay@insure247.com | insure247.com