

## Bulletin 331

### COINSURANCE DISCLOSURES

During the recent legislative session, Maine's Joint Standing Committee on Insurance and Financial Services considered a bill related to various issues affecting commercial insurance policies. L.D. 1192 would have required insurers to make written disclosures to policyholders providing examples of how the coinsurance clause in the policy applies to the amount of coverage provided for covered equipment or property. This bill resulted from a situation in which the policy amount was based on the expected single maximum loss value of equipment owned by the insured, not on the total value of the equipment insured. When a loss did occur, the policyholder discovered that the insurer would only pay pro rata based on the amount carried over the amount required.

The committee voted this bill "Ought Not to Pass," but did express its concern to the Bureau of Insurance that policyholders do not understand coinsurance. The committee asked that the Bureau convey this concern to Maine's licensed commercial property insurers and take steps to educate the public about the coinsurance concept and how it works in practice. The danger that the Committee wants policyholders to avoid, and insurers to take steps to guard against, is that they are underinsured because they have not had a clear explanation of coinsurance when applying for coverage.

The Bureau encourages insurers issuing property policies to take steps to make the coinsurance as clear as possible to applicants and policyholders. First, insurers should promptly review their coinsurance provisions in light of the committee's concerns and take steps, if necessary, either to revise such provisions or to include separate disclosures with their policies, in each case with specific illustrations showing how coinsurance works. Insurers should also consider applying the readability standards set forth in 24-A M.R.S.A. §§ 2441 and 2443 to their coinsurance provisions in order to reach lower Flesch scores. Insurers using forms filed by a designated advisory organization on behalf of members and subscribers pursuant to section 2412(1)(C) may rely on conforming policies or endorsements. Second, insurers should make their producers aware of this issue and train them to explain the coinsurance concept to applicants and policyholders in the simplest possible language and with readily understandable examples.

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