

THE IMPORTANCE OF INSURANCE TO VALUE

By Rich Rudek

President & COO of ReCasa Financial Group, LLC

When insuring a property, one of the most common questions is how much should you insure the property for? Should the property be insured for the potential selling price, cost of the purchase, or the city or county's appraisal? The property should actually be insured for the amount it would cost to rebuild the property. Most insurance providers have software to help determine a property's rebuild cost, taking into account the year of construction, the type of exterior construction of the building (frame, brick, masonry, etc.), the square footage of the building, and number of rooms in the property. Many times the rebuild cost and the potential sale price of a property are two different numbers. If the property is not insured for the rebuild cost, there could be costly coinsurance penalties at the time of a claim.

For example, one single property has a rebuild cost of \$250,000 and an appraised value of \$150,000. The property is insured for the appraised value, or \$150,000. If this property has a kitchen fire that causes \$50,000 in damages, you could potentially only receive 60% of the claim because the property is insured to 60% of the rebuild cost. The property owner would receive \$30,000 of the \$50,000 in damages, leaving him/her to come up with the additional \$20,000.

Do not let this happen to you. If you have any questions on what the proper amount of insurance is on your properties please

ReCasa Financial Group

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