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# Understanding Property Insurance Concepts: PML, Loss Limits & Policy Structures

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When it comes to commercial property insurance, understanding certain insurance terms and structures can help businesses make better-informed decisions regarding their coverage. These include but are not limited to **probable maximum loss (PML), loss limits**, and different policy formats such as **primary, excess and quota-share**.

## PROBABLE MAXIMUM LOSS (PML)

PML represents the worst-case scenario for an insurer, calculating the maximum loss expected on a policy at any given time. Each insurer defines and calculates PML differently, but it generally refers to the highest percentage of risk that could result in a loss. Understanding PML helps both businesses and insurers evaluate potential exposures.

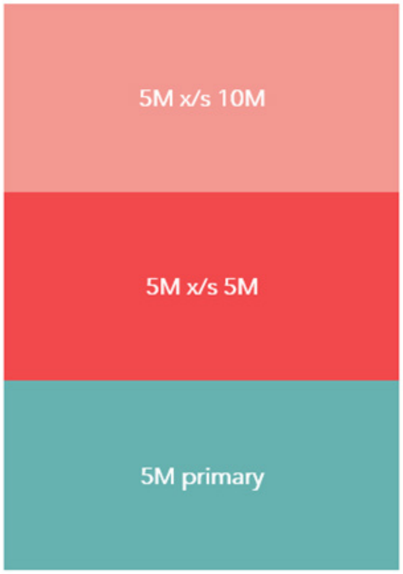
## LOSS LIMITS

A loss limit is a cap placed on coverage, typically lower than the total property value, but sufficient to cover the exposed value in the event of a loss. This approach is used when full coverage is either not affordable or impossible due to reinsurance constraints. In high-risk situations, insureds might only be able to purchase a policy with a loss limit. It's essential to check if there are any specific lender requirements regarding coverage limits.

## PRIMARY, EXCESS & QUOTA-SHARE POLICIES

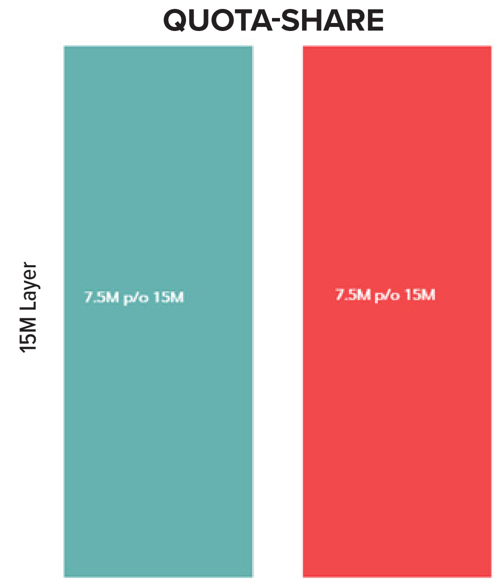
- **Primary Policies** cover the initial layer of risk, with set limits and deductibles. Primary policies pay out first when a covered claim occurs, regardless of whether additional excess policies are in place.
- **Excess Policies** cover additional layers of risk after the primary policy is exhausted. The primary carrier assumes 100% of the initial risk, while the excess carrier covers the next layer of risk once the primary policy limit is reached.
- **Quota-Share Policies** involve multiple insurers sharing coverage limits on a given layer. Each insurer contributes a percentage of the total layer (e.g., 50%), reducing individual exposure.
    - o **Cost Efficiency**: Quota-share arrangements can result in rate savings since the coverage is spread across multiple insurers, typically resulting in a lower average price per million dollars of coverage.

**PRIMARY & EXCESS**



- **Simplified Claims Process**: With quota-share policies, the insured works with a single lead insurer throughout the claims process, streamlining communication and claims handling.

These policy structures help balance cost and coverage, offering flexible options for businesses to manage risk efficiently.

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