THE PURPOSE AND EFFECT OF THE CO-INSURANCE CLAUSE IN FIRE INSURANCE POLICIES.

On the recent occasion of the New Brunswick Pond meeting of the Blue Goose, held at St. John, N.B., Mr. R. S. Ritchie delivered a very interesting address on the purpose and effect of the Co-Insurance Clause as follows:—

The intent of the Co-insurance Clause is to equalize payment of premium on property of like character, between property owners for like benefit promised in a policy contract. It is not primarily intended as a benefit to insurance companies.

Insurance is analogous to a tax, differing from it in that a tax is compulsory, but insurance is voluntary.

To name a rate of premium and not provide for a percentage of the value of the property insured, to equalize as between property owners the payment of premium, is as though a tax rate on property of, say, two per cent. was levied by the authorities, but the assessment of valuation was left to each individual to fix for himself.

In such a case it is obvious that, on two adjoining properties each worth $10,000, one man might assess himself $8,000 and pay a tax at two per cent. or $160.00 while his neighbour might assess himself $4,000 and pay a tax of $80.00 on property worth just as much. This would be unequal payment for like benefit, which as a system of taxation would be denounced as unjust. The like principle exactly obtains in fire insurance and it is the public, not the insurance companies, who finally suffer the iniquity and injustice; and it is the public who should demand that the Co-insurance principle be universally applied for its own protection.

To illustrate, take a row of four brick stores all built at the same time, each costing $10,000 to build, but each owned by different parties.

A rate of premium is fixed based on general experience which everywhere assumes that about eighty per cent. of value is insured.

The average rate is figured on the expectation that, because of good construction, fire department and water supply, the probability of total destruction is remote, a partial destruction only being reasonably expected. This rate, say, is one per cent. Each owner is insured for, say, $8,000 each; pays $80.00 premium or $320.00 in all—to go to the general insurance fund. This kind of thing is done all over the city and so produces enough premiums to pay losses, expenses and profits.

But, suppose that in some sections or cities the companies omit to require co-insurance or a similar basis of equitable assessment, what happens?

Owner "A" who is either fair-minded or who is mortgaged, takes out $8,000 and pays $80.00.

Owner "B" who is rich or miserly, says $4,000 is enough and pays $40.00.

Owner "C" takes $6,000 and pays $60.00.

Owner "D" takes amount of his mortgage, $5,000, and pays $50.00.

The total insurance premiums paid into the general fund are $230.00 instead of $320.00 which is the reasonable amount. In the course of time, companies find that their premiums on this class are not enough to pay losses, expenses and profits; they must be advanced, say, to $1.40 instead of one per cent.

Then	"A"	on $8,000	at $1.40	pays $112.00
"	"B"	on 4,000	at 1.40	pays 56.00
"	"C"	on 6,000	at 1.40	pays 84.00
"	"D"	on 5,000	at 1.40	pays 70.00

Now the companies are recouped their $320.00 but it is evident that "A" is equitably mulcted while "B," "C" and "D" are variously favoured. This is discrimination which ought not to be allowed and which companies could and would prevent by the co-insurance principle, yet I am informed that some of the States in the Great Republic to the south of us legislate in substance, saying by statute, "you shall not be permitted to remove the discrimination, but shall continue to favour some citizens at the expense of others."

The position of the companies virtually is: "It is needful to have a rate of about one per cent. of the value of all properties we insure of that class to enable us to meet the loss per cent. of the full value of such properties; this we can only obtain equitably by the principal of co-insurance;" the same holds good in the same manner for rates upon other classes generally. But, if the law says "you shall not do this," then we must still obtain the one per cent, blindly, unequally and unjustly, as between property owners, as we are helpless to prevent it.

Compare the foregoing with the analogy of taxation and you will see the point.

Now to illustrate, the effect of co-insurance in case of loss assuming the eighty per cent. co-insurance to be used.

(1). Remember the co-insurance clause has no effect whatever where the **amount of insurance** equals or exceeds eighty per cent. of the value of the property insured.

(2). The co-insurance clause has no effect when the **amount of loss** equals or exceeds eighty per cent. of the value of the property insured. Therefore it only operates when both the loss and the amount of insurance are less than the agreed percentage of insurance whether that is eighty per cent. or any other percentage.

To illustrate briefly, the operation of the eighty per cent. clause:

Value of property $10,000, insurance $8,000 or more.

The clause has no effect in settlement of any loss, large or small, because the insurance equals or exceeds eighty per cent. of the value of the property.

Now we will take value of property $10,000, insurance $6,000, loss $6,000. The clause operates just as though there was actually $8,000 insurance upon which to apportion the loss, because the insured has had the benefit of a reduced rate of premium which assumed he would carry so much, hence in settlement companies pay six-eighths of the loss, or $4,500, and assured loses $1,500 because he took the option of paying premium on a smaller amount than eighty per cent.,

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