

THE CO-INSURANCE CLAUSE.

(Prize Essay by A. D. Reid, "Yorkshire.")

When we consider the vast amount of fire insurance business done in this country, and count up the thousands of fire insurance policies which are annually placed in the hands of property owners and merchants, when we consider the value of these contracts on the strength of which unfortunate people who suffer from fire losses are annually indemnified for an average sum of over twenty millions of dollars, and when we consider how important a matter it is to each individual to have his property and goods insured against loss by fire by some such contract of insurance it is surprising to find how few people give a proper attention to the term of the policy of insurance which such an important document deserves.

Many merchants and insurers who fully recognize the necessity of insurance and appreciate the security which such insurance affords are nevertheless astonishingly ignorant of the exact terms and conditions which govern their policies. It is true that the reading of an insurance policy is less attractive than the morning newspaper. The small print and legal formulae of an insurance contract repel the eye of the indifferent insurer. The friendly agents word that "everything is all right" is thankfully accepted, and the document is deposited in the safe after merely a casual perusal or perhaps entirely unread.

Insurance agents are in this way forced into a position of trust and responsibility which is by no means desirable by either the agent or the insurer. While most agents accept the position and fulfil worthily their duty to the assured, there has been in recent years a growing number of agents who are neither careful enough nor capable enough to act in such a position. There are agents canvassing insurance who had no training in the business and who are scarcely instructed in the rudimentary ideas of insurance policy writing or of any other subject in connection with the business of fire insurance or fire prevention. This is what makes the unread policy a dangerous thing. The badly written policy of insurance is the cause of the disputed loss adjustment. An agent's incompetence is the source of many a law-suit.

The employment of untrained insurance agents has a further pernicious influence. When such an agent is questioned upon insurance matters, as he is quite likely to be by business men astute in their own lines, who naturally wish to know that they are receiving in return for their premiums, the erroneous explanations given by the amateur agent and the misconceptions thus disseminated are a discredit to what should be the honourable profession of the fire insurance agent.

Perhaps no portion of the fire insurance contract has been subject to so much popular misunderstanding as the coinsurance clause. The incorporation of a co-insurance clause in a policy permits the insurance company to grant a lower

rate of insurance and naturally shrewd business men in a question of cash outlay wish to know the why and wherefore of the reduced rate. A fifteen or twenty per cent cash discount is not given in business for nothing and a proper knowledge of this clause is a prime necessity of every insurance agent, so that he may be able to clearly and correctly explain to his client just what a co-insurance clause is, why it is the means of reducing the rate and how it acts in the interests of both parties. Probably more than half of the total number of fire insurance policies issued contain a co-insurance clause, yet so variable has been the public understanding of it, so frequently has it been misinterpreted with consequent loss to the assured, that it has been singled out for special legislation by some Provincial Governments, and policies having a co-insurance clause in them must bear across their face conspicuously in red ink "This policy contains a co-insurance clause" like a danger signal.

Here is the co-insurance clause usually found in a fire insurance policy:

"It is part of the consideration of this policy, and the basis upon which the rate of premium is fixed, that the insured shall maintain insurance concurrent in form with this policy, on each and every item of the property hereby insured to the extent of at least eighty per cent. of the actual cash value thereof, and that, failing so to do, the insured shall be a co-insurer to the extent of an amount sufficient to make the aggregate insurance equal to eighty per cent. of the actual cash value of each and every item of the property hereby insured, and in that capacity shall bear his, her or their proportion of any loss that may occur."

The first part of the clause is fairly simple. The insurance company reduces the premium on a certain condition, which is that the assured will insure his property to at least eighty per cent. of its value. That is not difficult to understand, and if the assured lives up to the letter of his agreement no trouble can ensue, but if he does not live up to his agreement there may be trouble. A violated agreement usually does make trouble anyway, and the fault is entirely his who violates his agreement. In fire insurance, however, this agreement by the assured is frequently broken and insufficient insurance is carried, resulting in a loss to the insurance companies of a large amount of premiums, which they should receive year after year. It is only in the event of a fire damage that the assured may find out the error of his ways, and even then if the fire loss is total or more than 80 per cent., the co-insurance clause does not effect the settlement of an insurance. Only in the event of a partial loss does the insurer reap the sad reward of non-fulfillment of the co-insurance clause. It is sad when a man has a