

Meaning and Purpose of Co-insurance Clause

By Henry Howes, Special Agent for the Henry Evans Companies.

The co-insurance clause as used in policies of fire insurance is an agreement whereby the insurer assumes liability for a stated percentage of any loss. In consideration of a lesser rate of premium than would have to be charged in the absence of such an agreement, the assured contracts to maintain insurance in one or more companies, in amount not less than the stated percentage of value of property insured. Failure on the part of the assured to do so does not invalidate the policy, but the liability of the insurer continues to be a fixed percentage of the loss.

The majority of fires result in partial losses only, and, co-insurance results in the loss to the insurer following in relation to the amount of damage, instead of fluctuating with the amount of insurance that may, by chance, happen to be in force at the time of the fire.

In these days, it is seldom indeed that property is insured through intention. It is due, more often to mere chance of accident or neglect. It may be that one man has married a wife and left hurriedly on a honeymoon trip, neglecting beforehand to renew expiring insurance. In just such a case, suppose one insuring company has a policy of \$1,000 at risk on a property valued at \$10,000; that when this policy was issued, there was a total insurance of \$8,000, but that \$7,000 of the insurance lapsed before the fire. A total damage of \$1,600 is done. Had the \$8,000 of insurance been maintained, the loss under the \$1,000 policy would have been \$200, and the assured would have lost nothing; but, with \$7,000 of the insurance lapsed, the loss under the \$1,000 policy becomes \$1,000—a total loss, and the assured loses in addition \$600. The co-insurance clause, through the incentive of a reduced rate, puts a premium upon thrift and encourages good business methods on the part of the assured, and relieves the insurer of a fluctuating liability due to mere chance. The co-insurance clause changes the privilege of the assured to carry co-insurance up to a reasonable percentage, to a duty to do so.

The purpose of the co-insurance clause is to level rates of premium according to the percentage of value insured. In raising revenue to carry on a city government, the city fathers, in their wisdom, knowing the amount required to be raised, fix a tax rate according to the assessed value of taxable property. The rate of taxation, the amount to be raised being fixed, will vary inversely as the assessed value varies. Just so, in fixing rates of premium for insurance purposes, the rate must vary according to the percentage of values insured. Assuming, just for illustration, that the value of property of a certain classification at risk is \$500,000; that losses and their complement of expense and reserve necessary for the inevitable conflagration, amount on the class to \$12,000. If \$400,000 insurance is maintained, the necessary rate of premium to be charged would be 3 per cent. but, if only \$300,000 insurance were carried, a rate of 4 per cent. would be required. The 80 per cent co-insurance is the one generally used. This clause would read: "In consideration of the reduced rate at which this policy is written, it is hereby stipulated and agreed that in case of loss, this Company shall be liable only for such proportion thereof as the amount hereby insured bears to 80 per cent. of the value of property at time of loss." To exemplify with a supposititious case. The value of property at risk is \$10,000; 80 per cent. of this amount is \$8,000, the amount of insurance agreed to be carried; a loss of \$8,000 to the property is sustained; the insurance is liable under

the contract for, and pays, 8-10 of the loss, or \$8,000—in this case a total loss under the policies, and this is an important point to note, that the co-insurance clause is inoperative where the amount of damage is equal to, or greater than, 80 per cent. of the value of the property. In a second case, the value is \$10,000; the damage \$1,600; the amount of insurance in force at the time of the fire is \$700. The insurance pays 7-8 of the loss, or \$1,400.

The reduction in rate for the use of the co-insurance clause varies according to fire protection, class of property at risk and construction of the building to be insured or containing the insured property. All adjustments are on the basis of value at the time of fire and the co-insurance clause does not change this condition.

RECENT FIRE LOSSES.

Recent fire losses reported to Superintendent of Insurance:—

Vanderhoof, March 16.—Mapes, owner and occupant, Henry Nickerson; log dwelling; value of building, \$400; value of contents, \$1,500; insurance, nil. Total loss, \$1,900. Cause, wind blew pipe off the roof plate.

Vancouver, March 24.—525 Pacific Street; owner, A. J. Dana; occupant, Mrs. M. Carrall; two-storey wood dwelling; value of building \$1,500, insurance on same \$1,200; value of contents \$250, insurance on same nil. Total loss, \$800. Cause, defective fire place. London.

Vancouver, March 28.—21st Avenue and Slocan Street; owner and occupant, City of Vancouver; one-storey brick and wood; Isolation Hospital; value of building \$35,000, insurance on same \$20,000; value of contents \$27,500, insurance on same \$16,000. Total loss, \$300. Cause, defective fire place. National of Hartford, Detroit, Acadia, etc.

Hope, March 9.—Wallace Street and First Avenue; owner, Coquahalla Hotel Co.; occupant, Walter C. Keeble; wood hotel; value of building \$20,000, value of contents, \$6,000, insurance on same and contents \$10,500. Total loss, \$26,000. Cause, unknown. Loss of life, eight persons. Western, Providence, Washington, British Crown Ins. Co., of North America.

Lytton, March 15.—C. P. R. road; owner, H. Cowden; occupant, F. B. Lucas; frame wood dwelling; value of building \$1,500, insurance on same \$1,500; value of contents \$1,200, insurance on same \$650. Total loss, \$2,700. Cause, stove insufficiently protected. Phoenix, Queen.

Marysville, April 9.—Wycliffe; owner and occupant, The Otis Staples Lumber Co.; wood machine and blacksmith shop; value of building \$1,300, insurance on same \$1,000; value of contents \$10,000, insurance on same \$5,000. Total loss, \$570. Cause, hot box on forge fan. Mfg. Lumbermen's Underwriters of Kansas City, Lumbermen's Underwriting Alliance, Liverpool, L. & G., Phoenix of London.

Tulameen, April 8.—Owner, Mrs. E. J. Henderson; unoccupied wood hotel; value of building \$2,500, value of contents \$50; insurance nil. Cause, incendiarism suspected.

Vancouver, April 14.—598 Union Street; owner, Mrs. Pratt; occupants, Ogura Jolen Toso, Delese Eugenio; two-storey wood stores and dwelling; value of building \$8,000, insurance on same \$5,500; value of contents \$1,550, insurance on same \$700. Cause unknown; suspected incendiarism.

Mt. Olie, March 28.—Ranch on Lot 1482, Barriere; owner and occupant, G. A. Borthwick; wood dwelling; value of building \$2,500, insurance on same \$2,000; value of contents \$2,500, insurance on same \$1,000. Total loss, \$5,000. Cause, sparks from chimney set fire to shakes on roof. Union Fire.

Saanich, April 1.—Oak Street; owner and occupant, William Carey and family; frame dwelling; value of building \$5,500, insurance on same \$3,000; value of contents \$2,750, insurance on same \$1,500. Total loss, \$8,250. Cause unknown. Equitable Fire.

WANTED:

Aggressive Life Man

BRIEF EXPERIENCE NO HANDICAP, BUT MUST BE CAPABLE OF LEADERSHIP IN PRODUCTION FOR SUBSTANTIAL COMPANY. PRIVATE OFFICE; STENOGRAPHIC ASSISTANCE; CO-OPERATION WITH HEAD OFFICE, AND OPPORTUNITY FOR EARLY PROMOTION. ADDRESS BOX 3, BRITISH COLUMBIA FINANCIAL TIMES, VANCOUVER, B. C.