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Distribution and Co-Insurance Conditions

A CLEAR exposition of the conditions attaching to the distribution and co-insurance clauses of fire insurance policies, with special reference to their application and effect in the adjustment of fire loss claims

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IN considering this subject it is necessary at the outset to fully understand the meaning of the clauses known as "distribution" and "co-insurance" in fire insurance, both being special contributive conditions or contracts agreed upon by the insuring company and the insured, dealing with the percentage of insurance to be maintained in proportion to the value of the whole property at risk and affecting the allocation of the insurance or loss payable in regard to the value of the property and the location respectively.

In cases where risks are divided into two or more separate or cut-off sections it is customary to insure the whole under specific items or amounts, and such method is usually satisfactory to the insured in so far as buildings themselves are concerned, the value being fixed and unchanging. Not so, however, in many instances of insurance on stocks where values are constantly changing, due to removal from section to section.

While the total stock value over the whole may be more or less fixed and readily ascertainable, such shifting of values renders necessary constant change of cover, under specific form of insurance, in order to secure full protection, therefore, to overcome such frequent changes, blanket contracts of insurance, subject either to a "distribution" clause or "full co-insurance" clause, are entered into and agreed upon to properly meet such contingencies.

The "distribution" clause adopted in Canada reads as follows, viz.: "It is hereby declared and agreed that in the event of fire, this insurance shall be held to cover and attach in the several (or both) adjoining buildings (or sections) hereinbefore described in the proportion that the value in each bears to the value in all at the time of such fire."

The "full, or 100 per cent. co-insurance" clause reads as follows, viz.: "The premium having been reduced in consideration of this condition, the insured shall, during the currency of this policy, maintain insurance concurrent with this policy on each and every item of the property insured, to the extent of the full value thereof, and if the insured shall not do so, the company shall only be liable for the amount of that proportion of the loss for which the company would be liable if such amount of concurrent insurance had been maintained."

The necessity of such conditions in contracts of insurance, covering under blanket, or single item forms, over two or more sections, is at once apparent as, each section being cut off and the whole probably not subject to one fire, insurance only sufficient to cover the highest value in any one section would be necessary for the full protection of the insured and, in such event, the insuring company would be subject to a total loss in any one section under a policy which, in amount, would represent only a percentage of the total value over all, the effect being full cover over all sections for a premium based upon a limited or small percentage of the whole value.

It will further be noted that, in the case of "distribution clause," the highest rate of premium on any one section is charged for blanket cover, whereas with "full or 100 per cent. co-insurance" an average rate is charged, estimated for the insured upon his first declaring the minimum, average and maximum value in each section or location.

Frequently it is contended that the "distribution" and "full co-insurance" clauses are one and the same in their application and effect in the adjustment of a fire loss affecting a portion of a divided or distributed risk, but such contention is erroneous, as I shall endeavor to explain.

In the event of one fire destroying the several or both sections forming the whole risk, payment of loss is not affected by the absence or presence of either condition in the contract of insurance, even though the total insurance be less than the value over the whole, but in case of partial loss and the total existing insurance being less than the whole value, either clause would be contributive, but in different manner and effect, as will be noted from the following example:

Building "A"
Value \$6,000

Building "B"
Value \$3,000

Blanket insurance of \$6,000 over both.

In the above example the values at the time of the fire were \$6,000 in building A, and \$3,000 in building B, insurance over both \$6,000, subject to distribution clause. As the value in each bears to the value in all, so will the