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# INSURANCE

A PRACTICAL GUIDE

*Various Forms of Coverage, Policy Contracts, and  
Protection Afforded Purchasers*

By

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TO DOROTHY S. ACKERMAN  
FOR HER MANY SUGGESTIONS  
AND FOR HER ASSISTANCE  
IN THE PREPARATION OF  
THIS BOOK



## PREFACE

Developments in the insurance field which affect both buyer and seller have made necessary this Third Edition of *Insurance* in which the book has been thoroughly revised as well as considerably enlarged.

The author has taken advantage of the opportunity to improve the text throughout both by addition of much new material and also by some rearrangement of the content, placing more emphasis upon those types of insurance which are of most concern to the average citizen and the ordinary buyer. These are also the types which are of most interest to the majority of agents, brokers, and others in the insurance business, and to students in college who are preparing for business careers.

For each of these many types of insurance the book presents discussion and analysis of policy provisions and the various clauses that may be added to policies to make them meet the requirements and circumstances of the individual case. It is hoped that the guidance given will be of material and constant assistance in securing the most effective protection in the most economical manner.

A set of special *Questions and Problems* will be found at the end of each chapter. In the present edition these, like the discussion itself, reflect many new ideas that are the outcome of conferences with business executives and officers of public organizations, and they also include questions actually raised by students in the author's insurance classes. They have all been thoroughly revised to conform to present-day conditions and practices. The study of these questions, answers to all of which are to be found in the text itself, will greatly aid the insurance buyer and will be particularly helpful to those who intend to apply for licenses as agents or brokers and who want to master the subject practically and thoroughly. Many agents and brokers have in fact successfully used this material in preparation for passing state examinations.

In completing his revision of this Third Edition, the author wishes gratefully to acknowledge the assistance he has received

from the many officials and other employees of insurance companies and rating bureaus. All have been generous with their counsel and help.

S. B. ACKERMAN

New York  
April 7, 1948

### REVISED PRINTING

Since the third revision of this book was completed, many important changes in insurance practices have occurred. The author has taken advantage of this reprinting to incorporate all these into the text. This, and the introduction of pertinent questions for the student, brings this book up to date.

S. B. A.

New York  
September, 1951

# CONTENTS

CHAPTER	PAGE
1 FUNDAMENTAL PRINCIPLES . . . . .	3
2 THE VALUE OF INSURANCE . . . . .	17
3 LIFE INSURANCE . . . . .	24
4 FIRE INSURANCE . . . . .	84
5 SPRINKLER LEAKAGE INSURANCE—WATER DAMAGE INSURANCE	162
6 EXPLOSION—EARTHQUAKE INSURANCE . . . . .	171
7 STEAM BOILER AND MACHINERY INSURANCE . . . . .	177
8 RAIN INSURANCE . . . . .	201
9 HAIL INSURANCE—GROWING CROPS . . . . .	213
10 LIVESTOCK INSURANCE . . . . .	221
11 COMPREHENSIVE GLASS INSURANCE . . . . .	231
12 BURGLARY, THEFT, LARCENY, AND ROBBERY INSURANCE . . . . .	239
13 TITLE INSURANCE . . . . .	288
14 CREDIT INSURANCE . . . . .	298
15 FIDELITY AND SURETY BONDS . . . . .	320
16 MARINE INSURANCE . . . . .	371
17 INLAND MARINE INSURANCE . . . . .	407
18 MISCELLANEOUS LIABILITY INSURANCE . . . . .	485
19 AUTOMOBILE INSURANCE . . . . .	543
20 AVIATION INSURANCE . . . . .	602
21 ACCIDENT AND HEALTH INSURANCE . . . . .	623
22 WORKMEN'S COMPENSATION AND NONOCCUPATIONAL DISABILITY INSURANCE . . . . .	651
23 TYPES OF INSURANCE CARRIERS . . . . .	677
24 UNDERWRITERS' ASSOCIATIONS . . . . .	683
25 ORGANIZATION AND MANAGEMENT OF INSURANCE COMPANIES	695
26 REINSURANCE . . . . .	707
27 INVESTMENTS OF INSURANCE COMPANIES . . . . .	715
28 STATE SUPERVISION . . . . .	726
29 LEGAL INTERPRETATION OF THE INSURANCE CONTRACT . . . . .	732
BIBLIOGRAPHY . . . . .	747
INDEX . . . . .	749



## TABLES

TABLE	PAGE
1 Amount of Insurance \$1,000 . . . . .	30
2 Ordinary Life—Nonforfeiture Values per \$1,000 of Insurance, Age 35	35
3 Twenty-Year Endowment—Nonforfeiture Values per \$1,000 of Insurance, Age 35 . . . . .	36
4 Twenty-Payment Life—Nonforfeiture Values per \$1,000 of Insurance, Age 35 . . . . .	37
5 Monthly Interest Payments and Various Rates of Interest on Various Amounts of Insurance . . . . .	40
6 Periods for Which Stated Monthly Payments Will Be Made for Various Amounts of Insurance at Various Rates of Interest . .	41
7 Amount of Policy Which Will Provide Stated Monthly Payments for a Given Period . . . . .	42
8 Annual Payments on Insurance Guaranteed Monthly for Various Periods of Years—Amount of Policy \$10,000 . . . . .	43
9 Monthly Installments for \$1,000 of Insurance . . . . .	44
10 Single Premium Life Annuity . . . . .	57
11 Single Premium Refund Annuity . . . . .	58
12 Single Premium Cash Refund Annuity . . . . .	58
13 Commissioners 1941 Standard Ordinary Table of Mortality . . .	67
14 Amount to Which \$1.00 Accumulates at 2% and 2½% After End of Various Years . . . . .	68
15 Present Worth of Initial Investment to Accumulate to \$1.00 at the End of a Term of Years at 2% and 2½% . . . . .	68
16 Comparison of Terminal Reserves on Different Policies—Commissioners' Standard Ordinary. 2½%, \$1,000, Age 45 . . . . .	71
17 Comparison of Terminal Reserves on Ordinary Life Policies—Commissioners' Standard Ordinary. \$1,000, Age 45. At different interest rates . . . . .	72
18 Short Rate Table—Showing Per Cent of Premium Earned, 1 Day to 87 Days . . . . .	93
19 Short Rate Table—Showing Per Cent of Premium Earned, 88 Days to 200 Days . . . . .	94
20 Adjustment . . . . .	99

TABLE	PAGE
21 Policies Issued to Dealers in Silk Goods . . . . .	248
22 Capital and Credit Ratings of Dun & Bradstreet, Inc.—Key to Ratings	299
23 Coverage Limits—Dun & Bradstreet, Inc. . . . .	300
24 Loss on Sales—Regular Policies . . . . .	301
25 Premium Charges for Increased Limits—Bodily Injury and Property Damage Liability . . . . .	569
26 Sliding Scale of Premium Reduction Percentages . . . . .	574
27 Standard Limits for Public Automobiles . . . . .	581
28 Amortization of a \$1,000 Bond Bearing 3% Interest, Purchased at \$1,038.25, Yielding 2% . . . . .	721
29 Accumulation Schedule for a \$1,000 Premium Bond Bearing 2% Interest Semiannually, Purchased for \$962.57, Yielding 3% . . .	722

# INSURANCE



## CHAPTER 1

### FUNDAMENTAL PRINCIPLES

**Risks to Persons and Property.**—The economic structure is so organized that the uncertainties of life bear considerable consequences. The possibility that a catastrophe may occur unexpectedly and prevent the completion of plans and projects is of utmost importance to the individual interested. His daily life is fraught with the element of risk, the uncertainty of fortune, or the possibility of misfortune. He must be on his guard against calamities which he cannot foretell or avoid and which threaten to do him bodily or economic injury or both. Such risks may be divided, accordingly, into two classes—risks to his person and risks to his property. The important risks to his person are: *death, superannuation, accident, and sickness*. Important risks to his property include: *fire; marine*, that is, losses due to transportation of goods; destruction by human forces; destruction by natural forces, such as hail, windstorm, rain; and all forms of *casualty*, such as burglary or automobile property damage.

**Solving the Economic Problem of Risk.**—The economic problem of these risks may be solved in two ways. One is to reduce the risk as much as possible, and thus decrease the amount of possible losses. Since certain types of economic catastrophes cannot be thus controlled completely, however, the reduction of the element of risk is possible only to a limited extent. The second and more important plan for alleviating the results of uncertainty is the use of insurance. Insurance distributes the cost of the risk over a large group of individuals subject to the same risk, in order to reimburse the few who actually suffer from the risk. For example, a study of past statistics in a city of 2,000 houses, each valued at \$10,000, may indicate that each year there are losses by fire amounting to \$10,000. Every owner, therefore, knows that some of the houses will be damaged by fire, and that it is possible that his house may be one of those that will be burned. Theoretically, if each owner contributed \$5 to a common fund annually, the risk would be covered and each owner would be freed from the fear of financial loss through fire. This principle of distributing risk is the basis of all insurance.

Insurance is a social service whereby one party, the insurer or insurance company, agrees to meet certain stated risks in return for a money

consideration paid by a number of other parties, the insured. The money consideration is called the *premium*. A fire insurance company, for example, will, in consideration of the payment of a premium, issue a contract called a *policy*, in which the insurance company agrees to reimburse the insured for a fire loss, but not in excess of the amount stated in the policy and with the provision that the loss occurs during the period for which the policy runs.

**General Considerations and Provisions.**—There are certain elementary considerations, and also certain provisions found in many policies, which it is desirable to discuss before the various particular branches of insurance are explained. These general considerations and provisions are as follows:

- |   |                                   |
|---|-----------------------------------|
| 1. Amount of possible loss.                       | 11. Federal versus state control. |
| 2. Element of gambling.                           | 12. Standardization of practice.  |
| 3. Basis for determining amount of property loss. | 13. Subrogation.                  |
| 4. Basis for rate-making.                         | 14. Notification of loss.         |
| 5. Merit rating.                                  | 15. Assignment of policy.         |
| 6. Deductible clauses.                            | 16. Contribution clause.          |
| 7. Low rates versus high rates.                   | 17. Bankruptcy clause.            |
| 8. Expenses.                                      | 18. Cancellation.                 |
| 9. State supervision.                             | 19. Return of premium.            |
| 10. Limitation of underwriting.                   | 20. Minimum premium.              |
|   | 21. Compulsory insurance.         |

**Amount of Possible Loss.**—It is difficult to think of any action that does not involve the risk of loss or injury. Insurance, however, is not designed to protect against every risk. Suppose a man who uses eyeglasses finds it necessary to pay several times a year for breakage of his lenses. He may think that this is a risk that should be insured, and may be willing to pay a premium in advance to an insurance company for the latter's undertaking to pay for a stated period for any repairs that may be needed. He knows that there is a possibility that his lenses may suffer no damage during that period. On the other hand, he also knows that the lenses may break and the insurance company disburse to him much more than the amount of the premiums he paid. Nevertheless, insurance against this is not practicable. On the average, men who use eyeglasses pay scarcely \$5 annually for repair to glasses. The possible loss from such risk is so small that the individual can carry it himself without any difficulty.

On the other hand, a man who owns a house never knows when his house may be burned and he may suffer serious financial loss. Insurance is, therefore, needed in such a case, since its purpose is to provide protection against losses which the individual cannot personally bear. Insur-

ance aims to protect against the large unexpected loss and not the small average loss which each person may reasonably expect.

**Element of Gambling.**—Since the purpose of insurance is to reimburse for loss, the contract to insure should be made only with one who is exposed to the risk. To extend insurance to anyone on property he does not own is to enter into a purely gambling contract with him—to bet as in a horse race—and usually, from the point of view of law, gambling contracts are void. To secure a valid policy the insured must generally show that he would suffer a loss by virtue of his interest in the property insured.

**Basis for Determining the Amount of Property Loss.**—Since the function of insurance is to reimburse the policyholder for a loss, any contract which provides that the insured will be paid an amount in excess of his loss is against public policy. Suppose a contract was issued providing for the payment of \$1,000 to the owner of an automobile in case of theft. If the automobile was stolen and its value at the time was only \$250, it would not be proper to pay the insured \$1,000. The usual basis of insurance for such a contingency is to compute the value at the time of the loss.

There are, however, certain circumstances in which the amount of the future loss should be agreed upon in advance. Illustrations of such cases are insurance on collections of coins, paintings, and curios. A painting may have no definite market value, nevertheless the owner may consider it very valuable; the same may be true of coin and curio collections. With no definite market value, there may be no way to determine the financial loss. Under such circumstances insurance companies and policyholders should agree on the valuation of the articles before the loss occurs.

**Basis for Rate Making.**—In order that the rates charged the insured may not be based upon conjecture, the insurance companies must have a sufficient number of risks to enable them to measure mathematically the chances of loss. They must base their estimations upon the law of averages. Knowing the average amount of loss for a given period of time in the past, the companies can determine the amount of money to collect in order to pay for future losses over a definite period. They must, naturally, be sure that their data are accurate. The question then arises whether the total amount to be paid for losses should be divided among policyholders equally, or whether the premium charge should depend upon other factors as well. In practice the companies try to make the rate approach a fair charge for the risk. This can be illustrated by the practice of making the rates in many lines of insurance depend upon

the territory in which the risk is located. Furthermore, in many lines all risks are classified into groups and different rates are charged for each group. In some lines risks are classified and each class is then considered individually. For example, in mercantile burglary insurance the class rates are subject to modification for the use of such devices as a burglar-alarm system. As another illustration, life insurance rates are based upon age, and they may be modified according to the physical condition of the insured.

In theory rates are made scientifically, but at least two factors militate against actual scientific accuracy.

1. The number of risks and the experience available may be too limited to offer a basis for determining a scientific rate, and judgment must be exercised.
2. The moral hazard is always present. There are individuals who attempt to benefit at the expense of the insurance system, setting fire to their property and collecting their loss from the insurance companies, or committing suicide in order that the beneficiaries of their life insurance policies may obtain the proceeds. Insurance companies are constantly trying to guard against people who know how to become involved in accidents. Any attempt to provide for this tendency in the rate is not only impossible but also against public policy.

**Merit Rating.**—In order to interest the insured in the prevention of losses, class rates may be modified for individual risks. This method is really a form of reward and punishment. If the insured is lax in his interest, he will be forced to pay an increased premium. If, on the other hand, he tries to prevent losses, his reward will be a reduction in premium. Illustration of this procedure can be found in fire and workmen's compensation insurance. A manufacturer who insures his factory against fire will be charged an increased rate if his place is untidy. On the other hand, if he introduces devices which will prevent fire or the spread of fire, he will be granted a reduction in rate. In compensation insurance, the loss experience of employers is measured against the premiums they paid in the past. In general, an employer with a good experience is charged a lower rate than an employer in the same line of business with an experience not so satisfactory.

**Deductible Clauses.**—A question often discussed is whether the insurance company should pay for all losses regardless of size, or whether the liability should be limited to those larger losses which the insured cannot carry. Suppose a man buys an automobile and obtains insurance against damage due to collision with other objects. If he knows that the insurance company will pay every petty claim, he may not try to avoid

losses. On the other hand, if the policy does not provide payment for small claims, he will probably be more careful. Furthermore, if the policy excludes payment of a certain amount of each loss, insurance can be offered at lower rates and the insurance company is relieved of the settlement and investigation of many claims. Two of the common methods used are the following:

1. The insured is required to bear part of each loss. Probably the most common illustration of this practice is the deductible clauses used in automobile collision insurance. A policy can be issued which provides that the insured should suffer the loss in each accident up to a certain amount. For example, suppose the policy was written with a \$100 deductible clause and a loss amounting to \$150 was sustained. The company's liability is \$50 and the insured must personally suffer a loss of \$100.
2. The insurance company agrees to pay only if the loss is in excess of a certain amount. An illustration of this practice is found in marine insurance wherein the policies may provide that the insurance company shall not pay small losses, for example, losses of less than 3% of the total amount of insurance. In this case, however, if the amount exceeds 3%, the company pays the entire loss.

**Low Rates Versus High Rates.**—In many lines of insurance situations have developed requiring increased rates. If rates are constantly increased, the insured questions whether the cost is not too high so far as he is concerned. Under these circumstances the careful man is more likely to give up his insurance and the careless to continue it. If only the poorer risks remain insured, the rate will again be inadequate and will have to be increased. Realizing this situation, insurance companies aim to reduce rates by eliminating undesirable risks and by introducing devices whereby those who are insured will try to avoid such losses as are preventable.

**Expenses of Insurance Companies.**—The premiums charged for insurance provide for the payment of losses and for the expenses and profits of the company. Important groups of expenses are the following:

1. Acquisition cost.
2. Office expenses.
3. Inspection of risks.
4. Investigation of claims.
5. Taxes.

The usual practice with regard to the percentages of the premium charged for expenses is to make no differentiation between a small and a large risk. For example, if one insured pays a premium of \$500, and another pays \$5,000, the percentage of the premiums charged for ex-

penses is the same. A question arises as to whether this procedure is proper. Are the expenses of an insurance company a fixed proportion of the premium regardless of the size of the risk? There are many who believe that the percentages of expenses charged should vary inversely with the size of the risk. Such procedure would seem to follow a general law of business, namely that of allowing the large purchaser a reduction on account of the lower cost of handling the business.

The amount expended for commissions in acquiring business has been severely criticized. The objection raised is that since insurance is a necessity, why should commissions be paid? The answers to this objection are as follows :

1. Few people will purchase insurance voluntarily; persuasion is necessary. In fact, some insurance companies look with doubt on people who voluntarily ask for insurance.
2. The business of insurance is complicated. Every insured should have an adviser who knows what policies will best meet his needs, and how to obtain them at the lowest rate. This is expert service and should be properly compensated. The man who sells insurance should be not merely a salesman but he should also be trained technically.

One of the items of expense is the portion of the premium paid to the state for taxes. The various states have placed a tax on premiums. This tax, unlike the income tax, is not based on profit, as it must be paid regardless of profit made or loss suffered by the insurance company. Every time a premium is paid to the company a portion must be set aside for the premium tax, and the company naturally includes this charge in the premium rate. There seems to be little justification for this tax, although it is easily collectible. The tax virtually penalizes insurance.

**State Supervision.**—Since the business of insurance affects everyone and is therefore of public interest, it is subject to state regulation which is tending to increase. This subject will be discussed further in the chapter on State Supervision. In general, laws have been passed which do the following :

1. Regulate the organization of insurance companies.
2. Regulate representatives of insurance companies.
3. Standardize policy forms.
4. Regulate rates.
5. Regulate reserves of insurance companies maintained against future liabilities to policyholders.
6. Regulate investments which insurance companies may purchase.

**Limitation of Underwriting.**—Broadly speaking, there are five branches of insurance, as follows :

1. Life insurance.
2. Fire insurance.
3. Marine insurance.
4. Casualty insurance.
5. Fidelity and surety bonds.

As a general rule, no one company is permitted to write all these branches of insurance. One company may write life insurance; another, casualty insurance; a third, fire insurance. Fire insurance companies may write marine insurance, but are not usually permitted to write casualty insurance. Life insurance companies are not usually permitted to write fire, marine, or casualty insurance. In other words, limitation is frequently placed on the lines of insurance a company may write. In some states, however, companies are not limited in the way described above. For example, life insurance companies are permitted to write accident insurance, which is a line written by casualty insurance companies; and fire insurance companies are permitted to write automobile property damage insurance, which is a line written by casualty insurance companies.

There is constant agitation to do away with these limitations and to permit every company to write all lines of insurance. At the present time several companies, each writing different lines of insurance, are sometimes controlled by a single group of capitalists, a separate company being formed for life insurance, another for fire insurance, and still another for casualty insurance. Some legislation has already been enacted that permits a single company to write fire and casualty insurance.

**The "All Risk" Policy.**—The practice of limiting the branches of insurance that companies may write has been further complicated by the appearance of a so-called "all risk" policy, issued especially by companies which are not organized in the United States. It has long been recognized that it is cumbersome and expensive to issue different policies to cover each type of risk for an insured, and that this practice compels the insured to study and analyze a large number of contracts if he wishes to be certain that all the various risks for which he desires coverage are insured. These difficulties are eliminated by the practice of alien companies of issuing a policy covering in general various risks written by fire and casualty insurance companies. If American insurance companies are to compete with alien companies for this business, there must be a closer relationship, especially between fire and casualty companies, than there is at present. Some insurance companies will issue "all risk" policies and there are indications that the issuance of such policies will more and more become a general practice.

**Federal Versus State Control.**—The larger insurance companies transact business in the various states. Nevertheless, each company must meet the statutory requirements of every state in which it operates.

This would not be burdensome if all the states had uniform laws. While insurance laws of the various states have, in general, similar provisions, there are enough differences to cause great inconvenience to the insurance companies. Moreover, meeting the requirements of the various laws involves an appreciable expenditure of money. The contention is made that insurance companies, in order to be subject to uniform laws, should be under Federal supervision rather than under state supervision. Although the courts have decided that the Federal government can regulate the business of insurance companies, nevertheless the states continue to regulate the various practices of this business.

Although Federal supervision might reduce expenses, it would have the following serious drawbacks: (1) harmful legislation would be far more serious if enacted by Congress than if enacted by a single state; (2) a centralized system could not properly handle situations which are purely local and do not involve any national problem.

**Standardization of Practice.**—The practice of insurance companies in the past was to prepare policies with whatever provisions each desired. Rates were based upon competition among the various companies. Two evils resulted: (1) in many cases the wording of the policy was such that many policyholders who believed that they were protected against loss could not collect when the loss occurred; numerous court actions followed; (2) competition in rates in some lines of insurance proved disastrous; some companies found that they had accepted risks for which the premium was inadequate and they could not meet their liabilities.

Insurance rates must not be placed so low that losses cannot be met. Executives of insurance companies saw the evils, and voluntary organizations were formed in several lines to provide standard uniform policies and to place rates on an adequate basis. As a result, companies are more stable and the purchasers of insurance have greater confidence in them.

**Subrogation.**—In many cases the insurance company pays the insured for losses for which third parties are liable. For example, if a man has his automobile insured against collision, and if collision occurs, the insurance company pays for the loss. The collision may have been due to the negligence of a third party. In such cases, if there had been no insurance, the insured would have sued the person responsible for the accident. If the insurance company pays the loss under the policy, the insurance company should be entitled to the right of the insured against the party responsible for the accident. Many policies provide that if another person is responsible for the loss and if the insurance company pays, the insurance company can be subrogated to the rights of the insured. In other words, the insurance company can demand reimbursement from the third party who is responsible for the loss. The company

should be permitted to retain only the amount paid the insured, including disbursements, and any excess should be paid to the insured.

**Notification of the Loss.**—Insurance companies require immediate notice of a loss. The purpose of this requirement is obvious. For example, suppose an insured claimed a loss due to fire, and notification was not received until two months after the fire, the insurance company could make little or no investigation for the purpose of determining the cause of the fire and the actual amount of the loss. The requirement of immediate notice of loss has been made in order to protect the rights of the insurance companies. This provision is usually interpreted to mean notice within a reasonable time after the loss.

**Assignment of Policy.**—The policy contract is considered to be a personal contract between the insured and the insurance company. There is a provision in many policies which prohibits assignment prior to loss without the consent of the insurance company.

**Contribution Clause.**—If property is insured and then additional insurance is taken in other companies, the policy usually provides that any loss which occurs shall be divided among the insurance companies in proportion to the amount of insurance carried with each. Incidentally, this clause, which is known as the “contribution clause,” provides that the distribution shall be made regardless of the solvency or insolvency of any of the insurance companies. For example, assume that an insured has the following fire policies covering his property:

A Insurance Company . . . . .	\$ 5,000
B Insurance Company . . . . .	3,000
C Insurance Company . . . . .	2,000
Total . . . . .	<u>\$10,000</u>

The insured has suffered a loss of \$1,000. Meanwhile the C Insurance Company has become insolvent. Nevertheless the liability of Company A and Company B would be as follows:

Total insurance . . . . .	\$10,000
A Insurance Company . . . . .	$.50 \times \$1,000 = \$500$
B Insurance Company . . . . .	$.30 \times \$1,000 = 300$
	<u>\$800</u>

Sometimes a policy is issued which provides that if there is other insurance the policy is an *excess* policy. This procedure is followed frequently in the branch of insurance known as “inland marine insurance.” In order to see how this clause operates, assume that there was a loss of \$3,000, and that there were two policies, one for \$4,000, and the other

for \$5,000, carrying an excess clause. Under such circumstances the company that issued the policy for \$4,000 would be responsible for the entire loss.

**Bankruptcy Clause.**—Under policies which cover the legal liability of an insured, the insurance company is not liable for any judgment that cannot be enforced against the insured. For example, a man is insured against liability to others for damages. The damages have occurred, and a judgment has been obtained against him. The insured, however, has become insolvent—the judgment against him is not enforceable. For this reason the insurance company is not legally liable either, even though the policy covers liability to others. The company, however, is morally liable. Many policies make this clear in a clause required by statute, which states that the insolvency of the insured does not affect the liability of the company to pay any judgment recovered against the insured.

**Cancellation of Insurance.**—Since the contract of insurance is generally written for a definite period, there is usually a provision permitting either one of the parties to cancel their agreement. In a few instances the right of cancellation is placed only in the hands of the insured, and in some cases this right is available only to the insurance company.

**Return of Premium.**—In practice the premium for a policy is usually payable in advance, and it covers a definite period of time. If the policy is canceled before the end of the period provided, the question arises whether any return of premium should be made by the insurance company. The insurance company was liable from the very first day to pay any loss, and the contention could be made that once it has assumed liability there should be no return of premium. If this practice were carried out, there would be great dissatisfaction on the part of the insured who paid the premium to cover his risk for a definite period. Therefore a provision is usually made for a return premium in case the policy is canceled either at the request of the insurance company or of the insured.

**Minimum Premium.**—The size of the premiums paid by the insured under many policies depends upon a number of varying factors. For example, in compensation insurance the premium depends upon the total pay-roll expenditures of the insured during any policy year. Suppose an employer is required to pay a rate of 25 cents for each \$100 of pay roll for his workmen's compensation insurance policy, and also that his total pay roll for the year is \$500. This would mean that his premium is \$1.25. As explained previously, this premium acts as a contribution to the payment of loss and of expenses. Obviously the insurance company's expense in connection with the policy is greater than \$1.25. In

view of this there is a requirement inserted in some policies that, where the premium depends upon varying factors, a minimum premium must be paid. There are diverse criticisms of the method by which the amount of this premium has been determined. Many contend that the policyholder paying a minimum premium receives more than his just share, and that the minimum premium paid should be much higher. Others contend that, as a group, policyholders paying minimum premiums produce a profit for the insurance company.

**Compulsory Insurance.**—There is a tendency to require individuals who expose others to injuries to purchase insurance against such risks. An example of this tendency is the requirement imposed upon employers in various states to purchase workmen's compensation insurance. Another example is the requirement of some states that those who operate public vehicles should purchase insurance protecting the public against loss due to accidents. It is certain that if a compulsory law is properly enforced, those who suffer injury will, under ordinary circumstances, be paid if they are entitled to payment. No longer need the injured be concerned with the financial standing of the one who is liable for the accident. An insurance company will step in and pay the loss.

It has been said that compulsory insurance will lower the rates. This is based on the assumption that the larger volume of risks will surely be profitable. It has not proved so in workmen's compensation insurance. In fact, rates have increased. This is due to (1) acts of the legislature in constantly increasing benefits to workmen; (2) lack of interest of many employers in preventing accidents; and (3) liberal attitude of public officials in deciding workmen's compensation cases.

Increase in the number of the insured will not necessarily decrease rates. In fact the new policyholders may be very undesirable. Reduction in rates depends more upon the carefulness of the insured than upon the number of insured.

NOTE: Since rates and rules are subject to change at any time, the reader should compare the material given in this volume with the latest rate books published by insurance companies and the various rating bureaus.

### QUESTIONS AND PROBLEMS

1. (a) Describe five risks to persons and property which may be covered by insurance.  
(b) Define the following terms: *insurance*, *premium*, *policy contract*.
2. (a) A owns a building worth \$25,000 which an insurance company offers to insure against loss due to fire in consideration of an annual payment of \$50. How can the insurance company afford to take the risk for that amount of premium?

- (b) *Y* has paid \$10 a year for plumbing. He offers an insurance company \$15 for a policy which will indemnify him against plumbing repair cost in excess of \$10 annually. Discuss the advisability of issuing an insurance contract to cover this contingency.
3. Discuss the liability of the insurance company for the following :
- (a) *L* obtained a \$25,000 fire insurance policy on a building that *L*'s sister, *O*, owned. *L* had paid premiums for 10 years when a \$5,000 fire loss occurred.
- (b) *M* insured his home for \$10,000 against loss from fire. The building burned completely and the replacement value of the building was calculated to be \$2,500 at the time of the fire. *M* demanded the amount of his insurance policy.
- (c) *X* insured a curio collection for \$5,000 against loss from any cause. The curios mysteriously disappeared. *X* demanded \$5,000 from the insurance company. The insurance company demanded that he prove the value of the curios at the time of the loss.
4. (a) *Q* requested a \$5,000 insurance policy to cover him against the risks of burglary, larceny, and theft. The insurance company quoted a rate of 5%, explaining that this rate was based upon the company's previous loss experience among ten neighbors of *Q*. Discuss the equity of the rate quoted to *Q*.
- (b) *M* was a manufacturer of furniture, and *R* manufactured similar articles. *M* requested a workmen's compensation policy from the *C Casualty Insurance Company*, and *R* requested a similar policy. The manual rate for furniture manufacturing was \$2.10 per \$100 of pay roll. The pay roll of *M* for the previous five years was approximately \$100,000 annually. *R* had about the same pay roll for the same period of years. The insurance companies which had carried *M*'s risk for the previous 5 years incurred \$2,000 losses for the period, whereas the companies carrying *R*'s risk for the same period incurred \$20,000 losses. Discuss the advisability of issuing policies to *M* and *R* at the same rates.
5. What is the company's liability if :
- (a) *L* purchased an automobile collision policy with a \$50 deductible clause. His automobile met with an accident on one occasion, and the damage amounted to \$85. At another time his automobile was damaged and the loss amounted to \$10.
- (b) *P* purchased a \$10,000 marine insurance policy. The policy contained a 3% average clause. While his cargo was being transported, *P* suffered a \$500 loss.
6. *R* was a manufacturer of paints. During the previous years various insurance companies had suffered severe fire losses in factories manufacturing paints. *R* requested a \$50,000 fire insurance policy. The company quoted a 20% rate. Should *R* accept the policy?

7. An insurance company quoted a rate of 1% on a risk. On this basis the premium would have amounted to \$400. When discussing this matter with his agent, *X* was advised that 60% of all premiums collected for similar risks would be used to meet the losses, and 40% to cover expenses. Describe the various elements of expense incurred by the insurance company.
8. (a) Describe the various methods used by the state in order to supervise the business of insurance.  
(b) A group of capitalists proposed to organize an insurance company to write the various branches of life insurance, casualty insurance, fire insurance, marine insurance, and fidelity and surety bonds. Examine the law of your own state and discuss the possibility of organizing one insurance company to write these various lines of insurance.
9. *M* obtained an insurance policy to cover his fur coat against "all risks." The coat was 5 years old. While the coat was being worn it was partly torn. Discuss the liability of the insurance company for this loss under the policy.
10. The *A Insurance Company* was organized under the laws of the State of New York. Congress enacted legislation to regulate the activities of this insurance company and various other insurance companies throughout the United States. The *A Insurance Company* violated one of the provisions of the Federal law. What is the liability of the insurance company?
11. *Y* desired a policy of \$5,000 covering his residence against fire. The *B Insurance Company* quoted a rate of  $\frac{1}{2}\%$ . The *C Insurance Company* quoted a rate of  $\frac{3}{8}\%$ . Discuss the power of these two insurance companies to quote different rates.
12. Discuss each company's liability for the following losses:
  - (a) *M* purchased an automobile collision insurance policy with a \$50 deductible clause from *Company C*. *M*'s car was damaged by the negligent driving of *Z*. The amount of damage was \$200.
  - (b) *Y* had a \$10,000 fire insurance policy covering his home. While he was absent from his home, a \$2,000 fire loss occurred. *Y* returned 20 days after the fire loss had occurred and immediately notified the insurance company.
  - (c) *N* insured his \$5,000 worth of merchandise against loss by a burglary insurance policy. *N* sold his interests to *Z*, and gave *Z* his insurance policy. Subsequent thereto there was a \$2,000 loss.
  - (d) *L* had a \$1,000 inland marine insurance policy covering his goods with the *B Insurance Company*. Subsequently, and without notifying the *B Insurance Company*, *L* bought a fire insurance policy for \$4,000 from the *C Insurance Company* for the same property. The value of *L*'s property covered by these policies was \$7,500. *L* suffered a \$3,000 fire loss.

- (e) *Z* insured his stock of merchandise through an agent who represented the *B Insurance Company*, *C Insurance Company*, and *D Insurance Company*. The amount of insurance obtained from each company was as follows: *B Insurance Company*, \$2,000, *C Insurance Company*, \$3,000, and the *D Insurance Company*, \$5,000. *Z* suffered a loss of \$2,500. Before the loss was paid, the *C Insurance Company*, unable to meet its liabilities, was placed in liquidation by the insurance department. The *C Insurance Company* met liabilities to the extent of 25%.
- (f) *P* obtained a policy covering his legal liability for injuries to others caused by the operation of *P*'s factory. During the policy term, *M* was injured, due to negligence attributable to *P*. *M* commenced suit and obtained a \$1,000 judgment against *P*. Before the judgment was paid, *P* became insolvent and filed a petition in bankruptcy.
13. Describe the company's liability under the following circumstances:
- (a) *X* obtained a policy from *Company B* for one year on January 15, 1951, and paid a premium of \$30. *B* notified *X* that the policy would be canceled on July 15, 1951.
- (b) Suppose *X* requested cancellation of the above policy at the end of the same period.
- (c) *X* paid a \$10 premium which was the minimum premium for the policy. One week after the policy had been issued, *X* desired to cancel his policy.
14. (a) The State of Massachusetts has enacted compulsory automobile insurance legislation. Examine the rates charged annually since the introduction of the law, and determine the effect of compulsory automobile insurance on the rates.
- (b) How have the rates changed for workmen's compensation insurance in New York State since the introduction of the workmen's compensation law?

## CHAPTER 2

### THE VALUE OF INSURANCE

**Two Methods of Insuring Against Risks.**—As stated previously, the primary purpose of insurance is to eliminate a risk which may cause a loss that an individual cannot bear alone. There are two methods of handling the risk of uncertain losses: self-insurance and regular insurance. Anyone who uses the method of self-insurance sets aside a fund annually to meet the contingencies of possible losses such as fire and any other hazard for which insurance is usually provided. The principal advantage of this method is that, if no losses occur, or if small losses occur, the amount set aside may not be required, or a part of it may not be required.

The second method, and the method commonly used, is insurance. Although the various forms of insurance differ in their purposes, they all render practically the same benefits. The benefits rendered by insurance are many and are briefly discussed in the following paragraphs.

**A Definite Sum Available for Uncertain Losses.**—If an employer is a self-insurer, there is a possibility that a loss may occur before a sufficient reserve has been created. Under the system of insurance, however, for the consideration of a premium the insurance company is ready to pay a loss for which it may be liable under the policy. In other words, the insured eliminates the danger of large uncertain losses by voluntarily assuming a small certain loss—the premium.

**Certainty Substituted for Uncertainty.**—If an insurance company limited its fire risk to one or two buildings, such a company would not be practicing the business of insurance but rather would be engaged in gambling. Such procedure would be similar to that of two individuals entering into a wager whether or not a certain person would or would not die within the following year. To limit the business to one or two risks would prevent the insurance company from making rates based upon scientific observations. By accepting risks on a sufficiently large number of properties, however, insurance companies are able to forecast scientifically the cost of carrying all the risks. Although the companies may be uncertain as to the probability of loss on any one of the risks, they are practically certain as to the cost of covering all the buildings

against fire. They accept small contributions from the majority who will not sustain any loss for the relief of the few who will suffer losses.

**Equitable Distribution of Cost of Losses.**—Insurance effects an equitable distribution of the cost of losses. Each risk presents its own problem, and in order to levy a just charge the insurance companies must study this risk in connection with similar risks. Many individuals are unable properly to analyze the insurable hazards in their own and in similar businesses. The insurance companies, on the other hand, have built up a large and well-organized system for the proper determination of premium charges, and thus they make possible not only the transfer of losses to a central organization for a small premium, but also, by means of the premiums, an equitable measurement of the hazards that are connected with a particular risk.

**Elimination of Worry.**—Insurance eliminates worry. If the institution of insurance had not been developed, many undertakings which are assumed at the present time by business men would not be consummated. For example, a merchant may have occasion to send his cargo to a foreign country. He fears that if the ship sinks or is damaged a severe loss may be incurred. If he carries marine insurance, however, the fear is eliminated and he is prepared to take the chance that he would not take without the protection of insurance. Furthermore, insurance aids in expanding businesses already established. If a business man is freed from worry by insurance, he is more inclined to invest or borrow additional capital for building up a large business. For example, he might fear that if he erected a new structure, his capital investment might be lost by fire or some other contingency. Insurance gives him protection and confidence against numerous hazards.

**A Factor in the Granting of Credit.**—Insurance extends the basis of credit. The entire system of business is made possible by the extension of credit. Practically every transaction at the present time is conducted on a credit basis, and relatively very little cash is used. Since credit is so essential in modern business, any venture which tends to further the extension of credit is of great importance. Practically all forms of insurance contribute to the important service of credit extension. To illustrate this statement, examples can be taken from the fields of fire insurance, marine insurance, life insurance, and credit insurance.

Suppose a manufacturer desires to obtain credit from his bank. One of the important questions asked by the bank is whether he has insurance to protect him in case of a fire loss. If he has no insurance or if he has an insufficient amount, he may, in case of fire, find himself unable to pay the loans the bank has extended to him. Therefore the bank requires

that the depositor should have a sufficient amount of fire insurance in order to protect its loans.

In financing foreign contracts marine insurance is a very important factor. Foreign transactions usually involve the use of three documents, a draft, a bill of lading, and a marine insurance certificate covering goods described by the bill of lading. This marine insurance certificate will be given to a bank in connection with the draft sold to the bank. In case of the loss of the commodity, the credit extended by the bank is protected by the marine insurance certificate issued by the insurance company, covering against the marine loss.

The uses of life insurance as a basis for credit are many and varied. Frequently a bank requires that a depositor assign his life insurance policy to the bank in connection with the granting of a loan. Furthermore many large corporations protect themselves against loss of credit standing, due to the possible death of an important member of the corporation, by purchasing an amount of life insurance believed to be financially equivalent to the officer's value to the corporation. Again, in times of business depression, when money may be difficult to obtain, the life insurance company is ready to make loans upon the life insurance policy at advantageous rates to the policyholder.

Life insurance, fire insurance, and marine insurance are primarily beneficial to the credit standing of the individual.

Another form of insurance which aims to stabilize credit in general is *credit insurance*. Many business men have been forced into bankruptcy through unwise credit extension or failure of customers in time of economic depression. One of the purposes of credit insurance is to protect the business man against any credit losses above the amount that he usually suffers annually in his business.

**Promotion of Thrift.**—Insurance encourages thrift. The usual method of encouraging thrift is to open a savings bank account. However a savings bank account has several disadvantages. These are as follows: (1) Premature death may prevent the individual from saving sufficient money to protect his dependents, if that is his aim. (2) There is a tendency to withdraw the money and often to use it for purposes of luxury. These two difficulties are overcome by the use of life insurance.

To illustrate this, assume that a man desires \$10,000 to protect his dependents and that he can save only in small sums. By paying a small amount annually to an insurance company he can obtain a policy for the desired amount which will be paid to his dependents, although his death may occur prematurely and before he could have saved \$10,000 in his bank.

If he were to give up his policy prior to maturity, he would receive a return of a certain amount, usually less than his premiums. The individual's reaction is that he does not want to lose any money paid by him, and he therefore continues paying on his policy.

Life insurance not only encourages thrift but may be said to be a form of compulsory saving. The reason for this is that each year the policyholder receives a notice concerning the date the premium is due. He knows that he will suffer a loss if he permits his policy to lapse.

**Insurance as a Form of Investment.**—Certain types of insurance provide a good investment. Life insurance, for example, may be purchased not merely as protection but also as an investment. This is especially true of the endowment life insurance policy which offers a safe investment and pays a fair rate of interest.

**Conservation of Life and Property.**—Another advantage of insurance is that it conserves life and property. As the business of insurance grew, the insurance companies came to realize that the payment of loss was not the only element that had to be considered. Prevention of property losses and conservation of human life have become a dominant note in their aims. The tendency is to make the public realize that a premature death which could have been prevented or a loss of property which was unnecessary, although compensated for by insurance, is nevertheless an economic loss to society. The idea of prevention of losses is not to eliminate the function of insurance companies but to reduce the premium rate as much as is consistent with solvency of the insurance company. Without prevention of loss the cost of insurance might grow so high that many people would find the cost of insurance protection prohibitive.

In order to carry out the campaign of prevention, the insurance companies operate various services in practically every line of insurance that is written. For example, fire insurance companies maintain an inspection service which inspects the insured's premises and offers him valuable advice relating to fire prevention. Furthermore, they maintain organizations for educating the public in regard to fire prevention. Companies writing workmen's compensation insurance make inspections of the insured's premises in order to see that machines have proper guards, and that physical conditions are such that accidents will be reduced to a minimum. Companies writing automobile insurance inspect automobiles and make contributions to safety prevention organizations whose aim is to reduce automobile accidents.

The best illustration of prevention work can be shown in the field of life insurance. Some companies maintain extensive medical and nursing service through which they attempt to lengthen life and prevent sickness.

There are life insurance companies which provide for medical examination of policyholders at stated intervals of time.

**Elimination of Dependency.**—In many cases insurance relieves the community from the necessity of caring for dependents. One individual may be killed by an automobile accident; another may be injured while working in a factory; a third may die prematurely. In each case the dependents may be reduced to poverty. If insurance protection has been purchased, however, the dependents will be provided with funds whereby they may take care of themselves.

**Form of Old-Age Pensions.**—Old-age pensions are made available by means of insurance. Many individuals know that when they reach old age they will be unable to support themselves. If they do not provide themselves earlier in life with sufficient sums to take care of their old age they may become objects of charity (unless they are entitled to old-age benefits under the Federal Social Security Act.) They may in their younger days invest certain sums with an insurance company annually, so that in their old age the insurance company will provide them with sufficient income for comfortable living. A life insurance company will issue a policy contract with two alternatives: either, in case of the premature death of the policyholder, to provide protection for his dependents; or, if he survives to old age and the protection of dependents is no longer important, to give him a pension so long as he lives.

**Insurance as the Guardian of Beneficiaries.**—Insurance acts as a guardian of beneficiaries. Many beneficiaries under life insurance policies cannot properly care for the full sum of the insurance. The life insurance companies recognize this, and in many policies there is a provision requiring payment of the funds to the beneficiary over a period of years instead of placing the principal sum in his hands all at one time.

**Furtherance of Education.**—General education is promoted by insurance. The insurance companies feel that they are charged with a public interest. They realize that they must educate the general public. Some of their important educational activities are the following:

1. Preparation of safety courses against accidents due to automobiles, which can be used by schools.
2. Preparation of moving pictures, the purpose of which is the prevention of fire losses.
3. Participation in public health campaigns for the purpose of teaching people how to prevent and eliminate diseases.
4. Participation in the maintenance of museums for the exhibition of safety devices.

**Promotion of Economic Development.**—Insurance materially aids the economic development of the country. Insurance companies have set up vast reserves to meet future liabilities, and these liabilities must be met from the funds accumulated by them. The insurance companies have sought such investments as would be safe and such as would yield a fair interest return. Large investments have been made by the companies in railroad securities, in government securities, and in real estate mortgages. These investments have without doubt helped the prosperity of this country.

### QUESTIONS AND PROBLEMS

1. *A* owns a factory employing 1,000 men. *B* has a chain of 300 stores throughout the United States employing approximately 3 men in each store. Discuss the advisability of *A* and *B* becoming self-insurers for (1) the compensation risk, (2) the fire risk, and (3) the plate-glass risk.
2. The *B Insurance Company* quoted a rate of 1% on *P*'s building against the risk of fire. *P* contended that insurance is merely gambling, but the insurance company contended that the rate is determined scientifically. Explain the insurance company's contention.
3. *L* desires to erect an additional factory building. He is concerned with various hazards which may cause the loss of the money that he intends to invest in the building. How may insurance eliminate these hazards?
4. *M* has been successful in his business. He obtained a credit of \$5,000 from his bank. Subsequently he requested his bank to increase his credit to \$10,000. An analysis of his business indicates that the success of the business primarily depends on *M*, and that in his absence the business would soon become insolvent. Discuss the methods by which the bank can afford to increase the credit extended to *M*.
5. *X* is married and has one child. He desires to protect his family by accumulating \$20,000. His present savings amount to \$1,000. He estimates that he can save \$500 a year. He is confronted with the problem of placing his money with a savings bank or placing part of the money with a savings bank and part with a life insurance company to purchase life insurance. Compare the advantages of both methods.
6. (a) Various insurance companies writing automobile insurance have formed organizations in order to carry on automobile accident prevention throughout the United States. Discuss the justification, if any, for including the cost of this accident prevention campaign as an element of expense in the premium charge.  
(b) The insurance companies claim that their business is a social aid to the community. Explain and illustrate the companies' contention.

TABLE 6. PERIODS FOR WHICH STATED MONTHLY PAYMENTS WILL BE MADE FOR VARIOUS AMOUNTS OF INSURANCE AT VARIOUS RATES OF INTEREST

Amount of Policy	\$25 per M. Y. M.	\$30 per M. Y. M.	\$50 per M. Y. M.	\$75 per M. Y. M.	\$100 per M. Y. M.	\$200 per M. Y. M.	\$300 per M. Y. M.
INTEREST BASIS—2% PER ANNUM							
\$2,500	109	89	52	34	25	12	8
3,000	133	109	63	41	30	15	10
4,000	185	150	85	55	41	20	13
5,000	242	194	109	70	52	25	16
6,000		242	133	85	63	30	20
7,000			159	101	74	36	23
7,500			172	109	79	38	25
8,000			185	117	85	41	27
9,000			213	133	97	46	30
10,000			242	150	109	52	34
15,000				242	172	79	52
20,000					242	109	70
INTEREST BASIS—2½% PER ANNUM							
\$2,500	111	91	52	34	25	12	—
3,000	137	111	64	41	30	15	—
4,000	194	155	87	56	41	20	13
5,000	258	204	111	71	52	25	16
6,000		258	137	87	64	30	20
7,000			165	103	75	36	23
7,500			179	111	81	39	25
8,000			194	120	87	41	27
9,000			225	137	99	47	30
10,000			258	155	111	52	34
15,000				258	179	81	52
20,000					258	111	71
INTEREST BASIS—3% PER ANNUM							
\$2,500	114	93	53	34	25	12	—
3,000	142	114	64	42	31	15	—
4,000	203	161	89	57	42	20	13
5,000	276	205	114	72	53	25	17
6,000		276	142	89	64	31	20
7,000			171	106	76	36	24
7,500			187	114	82	39	25
8,000			203	123	89	42	27
9,000			238	142	101	47	31
10,000			276	161	114	53	34
15,000				276	187	82	53
20,000					276	114	72

TABLE 7. AMOUNT OF POLICY WHICH WILL PROVIDE STATED MONTHLY PAYMENTS FOR A GIVEN PERIOD

Period Payable (Yrs.)	\$25 per M.	\$30 per M.	\$50 per M.	\$75 per M.	\$100 per M.	\$200 per M.	\$300 per M.
INTEREST BASIS—2% PER ANNUM							
1					\$ 1,189	\$ 2,378	\$ 3,568
2			\$ 1,178	\$ 1,766	2,355	4,710	7,065
3		\$1,049	1,749	2,624	3,498	6,996	10,494
4	\$1,155	1,386	2,309	3,464	4,619	9,237	13,856
5	1,429	1,715	2,859	4,288	5,717	11,435	17,152
6	1,699	2,038	3,397	5,096	6,794	13,589	20,383
7	1,963	2,355	3,925	5,888	7,850	15,701	23,551
8	2,221	2,666	4,443	6,664	8,886	17,771	26,657
9	2,475	2,970	4,950	7,425	9,900	19,801	29,701
10	2,724	3,269	5,448	8,172	10,896	21,791	32,687
15	3,896	4,676	7,793	11,689	15,586	31,171	46,757
20	4,958	5,950	9,917	14,875	19,834	39,667	59,501
25	5,920	7,104	11,841	17,761	23,681	47,362	71,044
INTEREST BASIS—2½% PER ANNUM							
1					\$ 1,187	\$ 2,374	\$ 3,561
2			\$ 1,172	\$ 1,758	2,344	4,688	7,032
3		\$1,042	1,737	2,605	3,473	6,946	10,419
4	\$1,144	1,372	2,287	3,430	4,573	9,146	13,719
5	1,412	1,695	2,824	4,236	5,647	11,294	16,941
6	1,674	2,009	3,347	5,021	6,694	13,388	20,082
7	1,929	2,315	3,858	5,787	7,715	15,430	23,145
8	2,178	2,614	4,356	6,534	8,711	17,422	26,133
9	2,421	2,905	4,842	7,263	9,683	19,366	29,049
10	2,658	3,189	5,315	7,973	10,630	21,260	31,890
15	3,758	4,509	7,515	11,272	15,029	30,058	45,087
20	4,728	5,674	9,456	14,184	18,911	37,822	56,733
25	5,585	6,702	11,169	16,754	22,338	44,676	67,014
INTEREST BASIS—3% PER ANNUM							
1					\$ 1,184	\$ 2,368	\$ 3,552
2			\$ 1,167	\$ 1,750	2,333	4,666	6,999
3		\$1,035	1,724	2,586	3,448	6,896	10,344
4	\$1,133	1,359	2,265	3,398	4,530	9,060	13,590
5	1,395	1,674	2,790	4,185	5,580	11,160	16,740
6	1,650	1,980	3,300	4,950	6,599	13,198	19,797
7	1,897	2,277	3,794	5,691	7,588	15,176	22,764
8	2,137	2,565	4,274	6,411	8,547	17,094	25,641
9	2,370	2,844	4,740	7,110	9,479	18,958	28,437
10	2,596	3,115	5,192	7,788	10,383	20,766	31,149
15	3,630	4,356	7,259	10,888	14,517	29,034	43,551
20	4,520	5,424	9,039	13,558	18,077	36,154	54,231
25	5,286	6,343	10,571	15,856	21,141	42,282	63,423

TABLE 8. ANNUAL PAYMENTS ON INSURANCE GUARANTEED MONTHLY FOR VARIOUS PERIODS OF YEARS  
Amount of Policy \$10,000

Period Payable (Yrs.)	2½% Guaranteed Monthly Installment	3% Total Interest			
		1st Annual Interest Payment	Total Interest Payments	Average Monthly Interest Payment	Average Total Monthly Payment
1	\$842.90	\$22.89	\$ 22.89	\$1.91	\$844.81
2	427.40	36.65	48.18	2.01	429.41
3	288.20	41.18	73.67	2.05	290.25
4	218.80	43.46	99.37	2.07	220.87
5	177.00	44.78	125.28	2.09	179.09
6	149.50	45.75	151.40	2.10	151.60
7	129.70	46.39	177.72	2.12	131.82
8	144.80	46.85	204.26	2.13	116.93
9	103.30	47.24	230.99	2.14	105.44
10	94.10	47.55	257.94	2.15	96.25
11	86.60	47.81	285.09	2.16	88.76
12	80.30	48.00	312.45	2.17	82.47
13	75.00	48.17	340.01	2.18	77.18
14	70.50	48.34	367.78	2.19	72.69
15	66.50	48.41	395.76	2.20	68.70
16	63.10	48.54	423.94	2.21	65.31
17	60.10	48.66	452.32	2.22	62.32
18	57.40	48.73	480.91	2.23	59.63
19	55.00	48.80	509.71	2.24	57.24
20	52.90	48.91	538.70	2.24	55.14
21	50.90	48.92	567.90	2.25	53.15
22	49.20	49.03	597.30	2.26	51.46
23	47.60	49.09	626.91	2.27	49.87
24	46.10	49.10	656.71	2.28	48.38
25	44.80	49.15	686.72	2.29	47.09
26	43.50	49.17	716.92	2.30	45.80
27	42.40	49.22	747.32	2.31	44.71
28	41.30	49.24	777.93	2.32	43.62
29	40.30	49.25	808.73	2.32	42.62
30	39.40	49.30	839.73	2.33	41.73

TABLE 9. MONTHLY INSTALLMENTS FOR \$1,000 OF INSURANCE

Age of Payee		Life 10 Years Guaran- teed	Install- ment Refund Annuity	Age of Payee		Life 10 Years Guaran- teed	Install- ment Refund Annuity
Male	Female			Male	Female		
30	35	\$3.22	\$3.13	55	60	\$4.90	\$4.50
31	36	3.26	3.17	56	61	5.01	4.59
32	37	3.30	3.20	57	62	5.12	4.68
33	38	3.34	3.24	58	63	5.23	4.77
34	39	3.38	3.28	59	64	5.35	4.87
35	40	3.43	3.32	60	65	5.48	4.98
36	41	3.48	3.36	61	66	5.61	5.08
37	42	3.53	3.40	62	67	5.74	5.20
38	43	3.58	3.44	63	68	5.87	5.31
39	44	3.64	3.49	64	69	6.01	5.44
40	45	3.70	3.53	65	70	6.16	5.57
41	46	3.76	3.58	66	71	6.30	5.70
42	47	3.82	3.63	67	72	6.45	5.84
43	48	3.88	3.68	68	73	6.60	5.99
44	49	3.95	3.74	69	74	6.76	6.15
45	50	4.02	3.80	70	75	6.91	6.31
46	51	4.09	3.85	71	76	7.07	6.48
47	52	4.17	3.91	72	77	7.23	6.66
48	53	4.25	3.98	73	78	7.39	6.84
49	54	4.33	4.04	74	79	7.54	7.04
50	55	4.42	4.11	75	80	7.69	7.25
51	56	4.50	4.18				
52	57	4.60	4.26				
53	58	4.69	4.33				
54	59	4.79	4.42				

3. **Restrictions.**—Insurance policies carry restrictions affecting the actions of the insured and the liability of the insurance company. The policy provides for the following:

(a) **SUICIDE.**—If the insured commits suicide during a limited period, usually one or two years after the issuance of the policy, the insurance company is freed from liability except for the return of premiums paid.

(b) **MISSTATEMENT OF INSURED'S AGE.**—If the insured misstates his age, the insurance company is required to pay merely the amount which the premium would have purchased at the correct age. For example, a man stated his age as 30 and accordingly paid a premium of \$24.01 for a life insurance policy, whereas his true age was 35 and required a premium of \$27.97. This misstatement having been discovered, his beneficiary would receive on the insured's death that portion of the full amount of insurance which \$24.01 would purchase at the age of 35.

(c) **ASSIGNMENT.**—The insured should notify the insurance company in case he assigns his policy. The assignment is made generally on blanks furnished by the company.

(d) **CHANGING POLICY TERMS.**—The policy terms cannot be modified by any agent and can be modified only by one of the authorized officers of the company.

**4. Additional Coverages.**—These are (a) disability benefits and (b) double indemnity benefits.

(a) **DISABILITY AND WAIVER OF PREMIUM.**—With the development of life insurance it was discovered that a number of policies were lapsed because of the disability of the policyholder. The insured was injured or ill and could no longer follow his regular occupation, or he was permanently and totally disabled. The insured would not have stopped payments but for the fact of the injury or disease. In consideration of an extra premium charge, some policies provide that if the insured is permanently and totally disabled before a certain age, he will not be required to pay any further premiums and his insurance will be continued. Several insurance companies issue a policy with a disability income feature in addition to waiver of premium. Different disability clauses are used by various companies. Payment of the income depends upon the definition of the words “permanently and totally disabled” in the policy. There is no standard clause required. However, some of the provisions that may be found in the disability income clauses are as follows:

1. The insured is entitled to the benefits if he has become totally disabled as a result of body injury or disease before attaining a certain age, say 55, and is prevented from performing substantially all the work pertaining to his occupation or any other occupation for which he is or may be suited by education, training, or experience. The entire and irrecoverable loss of the sight of both eyes, or of the use of both hands or of both feet, or of one hand and one foot is deemed to be total disability.
2. The disability must have continued uninterruptedly for a definite period of time, such as six months.
3. The company will waive premiums the due date of which next follows the date of commencement of disability.
4. No premium will be waived if the due date is more than a definite period of time, say six months, prior to the date of receipt at the home office of written notice of claim.
5. Some companies will pay a monthly income of a percentage of the face of the policy for each month of continued disability. If the

six months' period is used, the company is not liable for the first five months of disability nor for any fractional part of a month. Furthermore the company is not responsible for a period of disability prior to six months of receipt of notice of claim at the home office. The amount payable under the policy is not reduced by any disability payment received by the insured.

6. If the insured is receiving disability income at age 65 on a life, endowment, or term policy which has not matured by age 65, then the life, endowment, or term policy will mature as an endowment at age 65 and be paid in cash to the insured. All further obligations of the insurance company under the disability contract or the regular life insurance policy will be terminated with the maturing of the contract at age 65. In lieu of cash, the insured may elect to receive the maturing endowment at age 65 as a cash refund annuity providing life installments of \$6.00 per \$1,000 of maturity proceeds.
7. The insured is entitled to loan values and also dividends in a participating company, as if the waived premiums had been paid.
8. Notice of claim must be received during the lifetime of the insured during the continuance of the disability and not later than six months after the insured has attained the age of, say 55 years, unless it was impossible to have given such notice within such time and notice was then given as soon as reasonably possible.
9. The company can require the insured to furnish due proof of the continuance of disability and submit to medical examination by a medical examiner designated by the company. Failure to furnish proof or to submit to examination gives the company the right to suspend further payments if the company believes that the insured is no longer disabled.
10. Future monthly payments to become due to the insured will not be commuted in one sum.
11. Where a company provides both waiver of premium and disability income benefits, the period of insurance for waiver of premium benefit will expire on the policy anniversary date nearest the insured's 60th birthday, and the period of insurance for monthly disability income benefit will expire on the policy anniversary nearest the insured's 55th birthday.
12. The company is not liable for disability benefits if disability results from injury intentionally self-inflicted, from military or naval forces (including the air forces) of any country at war, or from bodily injury or disease which occurred before reinstatement of the disability agreement.
13. If the insured enters military service, waiver of premium and disability benefits are suspended but may be reinstated when the insured leaves military service prior to attaining a stipulated age, such as age 50.

14. Should facts show that the age of the insured at the date of his birthday nearest the date of the disability agreement was more than a certain age, for example 50 years, no benefit will be paid, but he will be entitled to a premium refund as the company does not issue any disability agreement contract if the insured's nearest birthday is 50.
15. If the insured is physically or mentally disabled, or if at the date of death there are any disability benefits due, the company can pay the money to the beneficiary.
16. The agreement will be terminated upon the insured's attaining the age of, say 55, if he is not entitled to benefits before that time.
17. The agreement is subject to the incontestable clause after three years from the issuance of the coverage.

(b) **DOUBLE INDEMNITY BENEFITS.**—The policy may also contain an accidental death benefit called the “double indemnity feature.” There is no standard clause. However, some of the provisions that may be found in this clause are the following :

1. The accident must have occurred before the insured has attained a certain age, say 65 years, and before the end of the endowment period if the policy is an endowment form.
2. The company must be furnished with due proof that death resulted, exclusively of all other causes, from injury.
3. The injuries must have been effected solely through external violent and accidental means.
4. Death must have occurred within 90 days from the date of the injury.
5. Death did not occur due to :
  - (a) Self-destruction of insured whether sane or insane.
  - (b) Taking poison or the inhaling of gas whether voluntary or otherwise.
  - (c) Any cause while in the military or naval forces (including air forces) of any country at war.
  - (d) Participation in riot or insurrection, or from committing an assault or felony.
  - (e) Travel or flight in, or descent from, any kind of aircraft of which the insured is a pilot, officer, or member of the crew.
  - (f) Submarine operations.
  - (g) Bodily or mental infirmity or disease of any kind.
  - (h) Bacterial infection other than that occurring in connection with or in consequence of other bodily injuries.
6. The company has the right to examine the body and make an autopsy unless prohibited by law.

In considering the optional modes of settlement, attention should be given to the effect of accidental death. If the insured carries \$5,000

insurance and has provided for a monthly settlement of \$100, his beneficiary would receive payments for 52 months if the interest rate is  $2\frac{1}{2}\%$ . If the policy carried a double indemnity provision and the insured was killed in an accident, \$10,000 would be payable and payment of \$100 per month would be made for 111 months. The insured should consider the possibility of accidental death, and whether, under such circumstances, he would desire a different distribution of the proceeds.

**Application for Life Insurance.**—In order to obtain a policy, the prospective policyholder must sign an application and usually pass a medical examination. If found physically acceptable and if investigation discloses that he is a desirable risk, he receives a policy. The application contains essentially the following information :

1. Name and home or business address of the applicant.
2. Place and date of birth. The date of birth is required because the premium varies with the age.
3. Occupation of the insured. Although the insurance companies issue their policies freely to people employed in the various occupations, some companies except certain industries. For example some insurance companies do not care to insure those engaged in structural iron work. If they do so, they charge a higher premium than that paid by the policyholder in a more desirable occupation.
4. Residence and travel. In many cases the insurance companies do not care to issue policies to those leaving the United States to live abroad, and they therefore desire to know whether the applicant expects to go to any other country.
5. The question of other life insurance :
  - (a) Whether the applicant has previously applied for an insurance policy in any other company.
  - (b) Whether he has any other insurance in any other company, society, or association.
  - (c) Whether he has any application pending anywhere else.
  - (d) Whether the insurance applied for is intended to replace other insurance.

The purpose of these inquiries is to enable the insurance company to determine whether the insured has been examined previously by any other insurance organization and whether he is carrying more than sufficient for a man of his financial standing.

There is a central organization called the Medical Information Bureau in which a record is maintained concerning abnormal medical findings, impairments, and abnormal histories of the applicant. False statements made in connection with this question can thus be checked by the insurance organization.

6. The amount of insurance and kind of policy desired.
7. In mutual companies, the disposal of the dividends, i.e. :
  - (a) Cash.
  - (b) Applied to reduce premiums.
  - (c) Accumulation at interest.
  - (d) Paid-up additional insurance.
8. Name of beneficiary and his relationship to the insured.
9. Whether the insured reserves the right to change the beneficiary. If the insured does not desire to reserve this right, a new beneficiary cannot be substituted without the consent of the beneficiary named in the policy during the latter's life.
10. Declarations made to the medical examiner.
  - (a) Weight and height. The insurance organizations have a standard table in connection with weight and height at each age, and serious variations from this standard place the medical examiner on guard.
  - (b) The use of intoxicants and drugs.
  - (c) Family history concerning the ages to which members of the family lived and whether they ever had any serious diseases.
  - (d) Individual history. Minute questions are asked concerning the past physical condition of the applicant.

After the answers to these various questions are given, a medical examination is made by a physician acting for the company. An inspection report is also made to determine the applicant's personal reputation. If all this is satisfactory to the company, a policy is offered to the applicant.

**Nonmedical Insurance.**—In some cases the tendency is to eliminate the medical examination and to depend upon the application for the issuance of a policy. In the main, this is due to (1) the fact that the younger men who are probably in good physical condition will be encouraged to purchase life insurance policies; (2) the belief that any additional cost of extra mortality will be partly offset in the average case by the elimination of the expense for medical examination; (3) the expectation that agents will sell additional insurance on lives already insured in the company.

**Substandard Insurance.**—Formerly the insurance companies did not issue policies to substandard lives, that is, those lives which did not meet the standard physical requirements. In many cases at the present time insurance companies will issue policies to substandard lives. Some of the important methods used for substandard insurance are as follows:

1. Charge the insured the rate for a higher age than the applicant's age.
2. Charge an extra premium.
3. Issue a particular type of policy, such as an endowment policy, which requires a higher premium than other types.

**Insurance Trust.**—As previously stated, in accordance with the terms of the policy contract the insured can have the company pay the face amount of the policy in one sum, or he may choose an optional method of settlement for the beneficiary. Sometimes an insured may find that the optional modes of settlement do not provide enough flexibility to accomplish his purpose. Under those circumstances it may be advisable to provide for the distribution of life insurance proceeds through an insurance trust. An insurance trust is an agreement whereby the proceeds of policies which the insured chooses to be subject to a trust agreement are collected by a trustee on the death of the insured. The trustee can then distribute the money in accordance with the terms whereby an insured can provide for the distribution of insurance proceeds in the same manner as though the funds were in his possession during his lifetime and were distributed in accordance with the terms of a will.

There are two forms of insurance trust. These are the unfunded trust and the funded trust. The unfunded trust is an agreement whereby the insured agrees to continue to pay the premium on his policies personally. The funded trust is an agreement under which the trustee agrees to pay the premiums. The insured assigns to the trustee sufficient securities of various types and the income from these securities is used to pay the premiums.

The following should be considered in deciding on the use of a trust.

1. The powers of a trustee are more flexible than the powers of a life insurance company. In rare instances has a life insurance company very flexible powers. If any unforeseen contingencies arise, the trustee can be given power under the terms of the trust agreement to meet these contingencies.
2. The proceeds of all the policies, regardless of the various companies which may have underwritten these policies, can be handled by a single trustee. If an optional mode of settlement were chosen, each company would have to handle funds available from the policies issued by the specific company.
3. The trustees may charge fees for the handling of funds, whereas the insurance companies make no charge.
4. The trustees may not have the wide investment experience of the insurance companies.
5. The trustees may be individuals, and if so provision will have to be made for succession of trustees.

**Industrial Life Insurance.**—Originally life insurance attracted only persons of means. With the development of the annual premium plan the middle classes were also able to purchase it. There remained a great part of the population represented by the industrial class which was

unable to purchase life insurance on an annual, a semiannual, or a monthly premium basis. Yet working people needed insurance, and needed it especially for one purpose—burial expenses. Thence arose industrial life insurance, of which the essential features are:

1. The premium is usually collected by the agent who calls weekly at the home of the policyholder, instead of having the policyholder mail the premium to the company's office, as is the practice of ordinary life insurance companies.
2. In the majority of cases there is no medical examination, since the amount of the policy is small. Issuance of the policy depends upon the questions answered by the applicant in his application and upon the statement of the agent who solicits the insurance that the applicant appears to be in good physical condition. If there is any doubt, however, a medical examination is required.
3. The premium is usually based upon units of five or ten cents.
4. Industrial insurance is family insurance. Its primary purpose is to meet the necessary expenses of death. Therefore there is frequently a policy in the family for each member of the family.

While different forms are used, industrial policies carry similar provisions, such as the following:

1. The insured may return the policy within two weeks from the date of issue, and all premiums paid will be returned.
2. There is a grace period of four weeks on premiums, subsequent to the first premium payment.
3. The insured may pay his premiums directly to the company, and after the payment of premiums for a year an allowance of a percentage of the total of the year's premiums will be made.
4. The ordinary policy usually has a specified beneficiary, or the amount of the policy is payable to the representative of the estate. The industrial policy may provide, however, that if the beneficiary does not request payment within a stipulated period, as for example, 60 days after the insured's death, the company can pay the money to any blood relative or relative by marriage who is equitably entitled to the proceeds. This is known as the facility of payment clause. The use of the clause will simplify the relationship between the insured or policyholder or claimant and the company, and will enable the company frequently to make equitable payment of the claim without any undue delay.
5. The insured usually cannot assign his policy, a privilege granted in ordinary insurance, except to financial institutions.
6. The policy may be reinstated if payment of premiums has not stopped for more than one year. The insured must pay the premiums in arrears and furnish satisfactory evidence of insurability.
7. Provision is made for cash surrender values and paid-up and extended insurance.

8. If the policy is issued by a participating company, provision is made for the payment of dividends limited to paid-up additions or credit for a number of weekly premiums.
9. The premium is waived for total disability, with provision for the payment immediately of a portion of the entire sum. Benefits are granted usually for the loss of both hands and both feet, or one hand and one foot, or the sight of both eyes. Some policies provide for the payment of a disability benefit and the payment of the face of the policy on death or at the termination of the endowment period.
10. The accidental death benefit is similar to that found in the ordinary policy.

The policies issued by the industrial life insurance companies are usually policies for which the premiums are payable to an advanced age such as 70 or limited to 20 years. In each kind the value of the non-forfeiture privileges offered is relatively small because of (1) the high cost of collection owing to the required weekly visit of the collector and (2) the higher mortality experience as compared with that of ordinary insurance.

**Group Life Insurance.**—Many of the life insurance companies have succeeded in interesting large employers in life insurance for their employees. One of the claims made is that an employer who purchases life insurance for his employees will make them more contented and therefore more useful.

Important features that may be found in group insurance contracts are the following:

1. The companies will usually insure employees of a given concern under a single group insurance policy without medical examination. Sometimes, if an employee does not accept the benefits of group insurance immediately, he may be required to take an examination before a certificate will be issued to him. The right of the employee is not affected, however, if he is absent from the service of the employer temporarily or due to physical disability.
2. The policy is usually written on the one-year term plan.
3. In general, the rate charged depends upon (a) the type of business and (b) ages of employees.
4. The premium may be paid by contributions from the employer and the employee or by the employer without contributions from the employees. A minimum of 25 employees is usually required. If the premium is paid by the employees and the employer, the plan usually requires that 75% of the employees must become members. If the premium is paid by the employer, all eligible employees must usually be insured.
5. It is not necessary to include all employees. The contract may be limited to employees in various departments of the business. How-

- ever a policy will not be issued where a few employees are picked from each department because of the possibility of adverse selection.
6. The contract may provide that employees are not covered until they have been employed for a definite period of time. This eliminates the casual type of employee who has no intention of remaining with the employer.
  7. Each employee receives a certificate that he is insured under a group insurance policy issued to the employer. The amount of the certificates may vary. Plans that can be used to determine the amount of each certificate are the following: (a) Each employee is given an equal amount. (b) The amount can be made to depend upon the salary paid to each employee. (c) The amount can be made to vary with the length of service of the employee. (d) The amount can be made to depend upon the position held by the employee.
  8. If the worker should leave the employer, he may continue the insurance for the amount indicated on the certificate by paying premiums at the regular rate charged to any other individual at his attained age, without any further examination. The worker must exercise this privilege within 31 days after termination of employment. He is entitled to any form of policy customarily issued for his age and class of risk except term insurance.
  9. If the employee should become totally disabled before age 60, and if the disability continues without interruption from the termination of his employment until his death, payment of the death claim will be made although occurring after termination of employment, provided that evidence of the continuation of total disability has been presented to the insurance company once a year during the period of disability.
  10. If the employer should terminate the insurance, every employee who has been insured under the policy for a period of at least five years will be entitled to the same benefits as though he had left the employment. The amount of insurance to which he would be entitled, however, is subject to the following limits: (a) the amount of the employee's protection under the group policy at the date of termination of the policy, less any amount of insurance to which he may become entitled under any group policy within 31 days after the date of the termination of the employer's policy, and (b) not more than \$2,000.
  11. The employer must keep a record of all employees insured, the amount of insurance in force or previously discontinued on any employees, and the date when employment became effective or was discontinued or decreased. Copies of the register must be furnished to the insurance company. Insurance is continued on an employee who is absent on account of sickness or injury, or on account of retirement on pension, or for a definite limited period of, say two months, on account of leave of absence or temporary layoff. The employer, however, can terminate the rights of such employees by

- notice to the company or by ceasing to pay premiums for any such employees.
12. The policy contains a grace period. If, however, the policy is canceled during the grace period on the request of the employer, the insurance company is entitled to the prorata premium for the period commencing with the last due date and ending with the date of receipt of written notice to the company.
  13. The policy will be renewed annually, provided that in the case of contributory insurance not less than 75% of the number of eligible employees are insured, and for noncontributory insurance not less than the total number of eligible employees are insured, and in either case not less than 25 employees.
  14. Although stock insurance companies do not usually pay dividends on policies, they have developed a method which provides for rate reductions on a group insurance policy. Under this plan reductions are made according to the experience under the policy. The result produced is very similar to the granting of dividends by participating companies for group insurance.
  15. There is no surrender value under a group insurance policy or certificate.
  16. The insurance under the group policy is nonassignable.
  17. Provision is sometimes made for group accident and health insurance and group hospital insurance.

Groups other than employees may use group insurance. Group insurance is permitted by some state laws for veterans' organizations, members of a group of persons borrowing from one financial institution, members of labor unions, and military units. Desirable factors of this form of policy are the following :

1. Insuring large groups under one policy and without individual examination enables the life insurance company to reduce expenses which affect the premium.
2. The commission paid to the agent is proportionately smaller than for the usual types of policy.
3. The fact that a workingman is insured under a group life insurance policy gives him an interest in the subject of life insurance. He is the more likely to purchase another policy independent of the group.
4. If the workman is insured individually, group insurance acts as a supplement to any other insurance that he may carry.
5. Loyalty between the employer and the employees may be fostered.

**Wholesale Insurance.**—Very similar to group insurance is wholesale life insurance. This is granted to employers with 10 to 25 employees, but instead of receiving a certificate, as in group insurance, each employee makes an application for insurance and may receive a policy. The employer must pay part of the premium.

**Salary Allotment Insurance.**—This insurance plan is similar to wholesale insurance. It can be used by employers with a few employees insured. Each of the employees can choose his own policy form. Medical examination may not be required. Under this plan the employer deducts the premium for the employee's policy from the earnings of the employee, and payment of the premium is made monthly. It is possible for the employer to make a contribution for part of the premium.

**Annuities.**—In addition to life insurance policies, the insurance companies offer a contract called a "life annuity" in which the insurance company agrees to pay an individual, called the "annuitant," a fixed sum at equal intervals of time, as long as he lives, in consideration of a lump sum paid in advance to the insurance company. For example, in one insurance company a man aged 60 pays \$10,000 in advance and the company agrees to pay him \$661.30 annually as long as he lives. Payments may be made annually, semiannually, quarterly, or monthly. No medical examination is needed in connection with the issuance of an annuity unless the annuity contract contains some feature of life insurance.

Two classes of annuities are *immediate* and *deferred*. The immediate life annuity provides for payment at the end of the first period after the annuity has been purchased. The deferred life annuity is one in which payments commence at some future time, provided the annuitant is living, thus, 20 years after the payment of the premium.

Immediate and deferred annuities may be purchased by the applicant making one payment, called the *Single Premium Annuity*. If the applicant makes payments annually, the contract is the *Annual Premium Annuity*.

1. Life annuity.
2. Refund life annuity.
3. Retirement annuity.
4. Joint and survivorship annuity.

1. **LIFE ANNUITY.**—The life annuity provides for the payment of an income for life. All payments cease with the payment which immediately precedes the death of the annuitant.

2. **REFUND LIFE ANNUITY.**—This annuity provides that the insurance company will pay an income for life to the annuitant. If, however, the total amount of money contributed by the annuitant was not paid to him prior to his death, the difference will be paid to a designated beneficiary. Suppose, for example, that the annuitant paid a single premium of \$10,000 for which he was to receive \$50 per month. Furthermore, assume that the insurance company paid the annuitant \$8,000 during his life. The balance of \$2,000 will be paid to the beneficiary designated in the annuity contract, in monthly installments or as a cash refund. If

the annuitant has received more income payments than he has contributed to the life insurance company, for example, \$11,000, no payments will be made to the beneficiary.

**3. RETIREMENT ANNUITY.**—Under the retirement annuity contract, premiums are accumulated at interest and the amount less expenses is applied against the purchase of the annuity at the retirement age selected. The income commences at the end of the period stipulated in the contract. Some provisions of the agreement follow :

- (a) If, before the date of the first payment, the annuitant dies, the beneficiary will receive a stipulated amount which depends upon the number of premiums paid by the insured.
- (b) Prior to the commencement of monthly income payments, the annuitant has the following life income options : (1) A life income with a guaranteed number of monthly payments. If the annuitant should die before receiving all the monthly payments, the balance (computed in one sum) will be paid to the beneficiary. (2) A life income with refund of the balance of the purchase price if at the date of the annuitant's death the cash value, as applied to the purchase price of such income, exceeds the income payments. The excess will be paid in one sum to the beneficiary. (3) A life income to the annuitant with no payment at the death of the annuitant.
- (c) The contract provides for cash surrender value but there is no cash surrender value if the annuity payments have commenced.
- (d) The contract may provide for loan privileges.
- (e) If the annuitant stops payments, a paid-up contract will be issued providing for annuity payments depending upon the amount contributed.
- (f) If the purchaser of the annuity desires to receive annuity payments earlier than the period of time selected originally, he may do so. If, for example, he desired his annuity to start at age 70, and subsequently requests a change of date to 60, the company will endorse the change on his contract. Of course the amount of annuity paid will depend upon the contributions made by the purchaser.

**4. JOINT AND SURVIVOR ANNUITY.**—The joint and survivorship annuity provides for an income payable during the joint lifetimes of several annuitants. On the death of one of the annuitants, payments continue as long as the other annuitants remain alive. This annuity may be suitable for a husband and wife, but the yield is not very high. Variation of the contract can be obtained by purchasing single annuity on each life and a joint and survivorship annuity on both lives. Thus single annuities might be purchased on the lives of the husband and wife

separately for \$100 per month each, and a joint and survivorship annuity for \$100 per month on both lives. This will provide for an income of \$300 monthly during the life of husband and wife, and \$200 monthly on the death of either the husband or the wife.

**Considerations When Purchasing an Annuity.**—The business of annuities is the reverse of the business of life insurance. If a man purchases a life insurance policy, he pays a fixed sum at equal intervals, provided he is living. Upon his death, his dependents receive the face of the policy. If a man purchases an annuity, he pays a fixed sum to the life insurance company in return for equal sums of money payable to him at equal intervals of time until his death or termination of the annuity period. The following should be considered in connection with the purchase of an annuity :

1. The annuity is extremely valuable in old age.
2. Since payments are usually only made provided the annuitant is living, the life insurance companies can offer a better annual return based upon the lump sum paid than can any other stable financial institution. The insurance companies can take two facts into consideration in computing payments: (a) the interest that will be earned upon the sum invested, (b) the probability of the death of the annuitant, which may stop further payments.
3. If death occurs prematurely, the return on the money paid during the annuity period may be much smaller than the amount that could have been obtained from other forms of investment.

The following tables show the premium charge at various ages as used by a nonparticipating company for a life annuity for which \$100 will be

TABLE 10. SINGLE PREMIUM LIFE ANNUITY

Price of Annuity of		Age Last Birthday		Annuity Purchased by \$1,000	
\$100 Annually	\$10 Monthly	Male	Female	Installments Annually	Installments Monthly
\$3,134.70	\$3,820.44	25	30	\$ 31.90	\$ 2.62
2,931.00	3,576.00	30	35	34.12	2.80
2,713.10	3,314.52	35	40	36.86	3.02
2,483.80	3,039.36	40	45	40.26	3.29
2,245.70	2,753.64	45	50	44.53	3.63
2,001.60	2,460.72	50	55	49.96	4.06
1,755.60	2,165.52	55	60	56.96	4.62
1,512.20	1,873.44	60	65	66.13	5.34
1,276.60	1,590.72	65	70	78.33	6.29
1,053.90	1,323.48	70	75	94.89	7.56
849.20	1,077.84	75	80	117.76	9.28
666.40	858.48	80	85	150.06	11.65

paid annually, and the annual amount of life annuity that can be purchased for \$1,000.

TABLE 11. SINGLE PREMIUM REFUND ANNUITY

Price of Annuity of		Age Last Birthday		Annuity Purchased by \$1,000	
\$100 Annually	\$10 Monthly	Male	Female	Installments Annually	Installments Monthly
\$3,256.80	\$3,966.96	25	30	\$30.70	\$2.52
3,081.50	3,756.60	30	35	32.45	2.66
2,897.60	3,535.92	35	40	34.51	2.83
2,706.70	3,306.84	40	45	36.95	3.02
2,510.10	3,070.92	45	50	39.84	3.26
2,309.40	2,830.08	50	55	43.30	3.53
2,106.60	2,586.72	55	60	47.47	3.87
1,903.90	2,343.48	60	65	52.52	4.27
1,704.00	2,103.60	65	70	58.69	4.75
1,509.60	1,870.32	70	75	66.24	5.35
1,324.10	1,647.72	75	80	75.52	6.07
1,150.20	1,439.04	80	85	86.94	6.95

TABLE 12. SINGLE PREMIUM CASH REFUND ANNUITY

Price of Annuity of		Age Last Birthday		Annuity Purchased by \$1,000	
\$100 Annually	\$10 Monthly	Male	Female	Installments Annually	Installments Monthly
\$3,281.90	\$3,997.08	25	30	\$30.47	\$2.50
3,111.90	3,793.08	30	35	32.13	2.64
2,935.00	3,580.80	35	40	34.07	2.79
2,752.10	3,361.32	40	45	36.34	2.98
2,564.60	3,136.32	45	50	38.99	3.19
2,374.20	2,907.84	50	55	42.12	3.44
2,182.80	2,678.16	55	60	45.81	3.73
1,992.70	2,450.04	60	65	50.18	4.08
1,807.00	2,227.20	65	70	55.34	4.49
1,629.80	2,014.56	70	75	61.36	4.96
1,465.10	1,816.92	75	80	68.25	5.50
1,320.10	1,642.92	80	85	75.75	6.09

**Pension Plans.**—The introduction of the Federal Social Security Act providing pensions for workers covered by the Act has produced great interest among workers. Objections raised against the plan are:

1. A limited pension is available to the worker on retirement.
2. No income is provided for a widow under 65 years of age if she does not have any dependent children under 18.
3. No consideration is given to wages over \$3,600 annually.

4. Some classes of workers and some who are self-employed are not covered by the act.

As a result of the low pension, a worker prefers to continue at his work, since the amount of the pension is insufficient for his needs. Under the Social Security regulations, any employee who is entitled to a pension at age 65 will not be granted any payments if he works and earns wages in excess of \$50 monthly in certain types of work.

The introduction of an adequate private pension plan should:

1. Provide for adequate retirement of superannuated employees.
2. Influence the worker to remain with the same employer.
3. Attract good workers.
4. Increase the interest of the employees in the successful operation of the business.
5. Provide public good will.

Important aspects of an employees' pension plan are the following: (1) pension costs, (2) qualifying the plan, (3) determining the amount of the pension, (4) type of pension plan, (5) taxation.

**PENSION COSTS.**—One of the important problems that an employer must consider is, "What will be the annual expenditure for the pension plan?" The determination of the cost will depend upon the following:

1. Shall the employees contribute part of the cost? If contributions are made by the employees, the cost will be lower than if the plan is noncontributory—that is, the entire contribution is made by the employer. The contributory plan may be advantageous when the employees' contribution is used to increase the employees' pension.
2. Shall there be a waiting period before the employee is eligible to membership in the plan? As some employers may have a large turnover in their working force, the worker who leaves in a short time should not be eligible in a plan which contemplates employment for a long time. Consequently various plans provide a waiting period before eligibility, such as two years or five years. Closely connected with the waiting period is the age requirement. Generally there is a greater tendency for young men to change their jobs than older workers. Therefore many plans provide a waiting period, and also a minimum age, before the employee is eligible, such as 30.
3. At what age will the pension commence? The earlier the retirement age, the higher will be the contribution. Pension plans generally seem to follow the retirement age of the Social Security Act—that is, age 65. A common provision of some plans, however, is that the employee can retire prior to age 65 but at a reduced annuity.
4. Should consideration be given to the employees' past services? An employer may have been in business for many years and many of

his employees may have worked for him for a long period of time prior to the establishment of the pension plan. Since no funds were accumulated for past services, two contributions would have to be made if recognition is given to past services. These contributions are (a) funds for current service and (b) funds for past service. The greater the recognition given to past service, the higher will be the contribution. Sometimes credit for past services is limited to a definite number of years.

5. Should the employee have any rights under the plan if he leaves prior to retirement? If the plan is contributory, the employee must receive the return of his contribution. If interest should be allowed on his contribution, this interest will affect the total cost of the employer's contribution. The cost will also be affected if all or part of the contribution made by the employer is given to the employee when he leaves prior to retirement. For example, a plan may provide that a stipulated percentage of the employer's contribution will be given to the employees, such as 10% for each year of employment beyond 15 years of service.
6. Shall the employer provide other social benefits in addition to the annuity? Sometimes, when the pension plan is introduced, the employer may also purchase any of the following: group life insurance, group accident and health insurance, and group hospitalization insurance.
7. Shall all employees be eligible regardless of type of work? An employer may not desire to insure all employees, that is, office, selling, administrative, and factory employees. Sometimes an employer may desire to limit the plan to all employees except factory workers.
8. Shall employees be eligible regardless of their annual wage? As stated previously, the Social Security Act gives no consideration to salary above \$3,600. It is therefore possible for an employer to provide pensions limited to earnings for the excess of \$3,600 annually.
9. Shall there be a maximum pension limit? If no pension limit is placed on high salaries, the cost of the plan will thereby be affected. In addition, the cost will be increased because usually the older employees receive the higher salaries and also there is only a short period to make the necessary contributions before retirement. Incidentally some plans provide a minimum pension regardless of salary and number of years of service after eligibility.

**QUALIFYING THE PLAN.**—The amount contributed by the employer will be allowed as an expense by the Federal government in the income tax return if the plan qualifies under the requirements of the Internal Revenue Code. Two important requirements for qualification are (1) the plan must be permanent, and (2) it must be for the exclusive benefit of the employees. A plan is for the exclusive benefit of employees (a) if a specified minimum percentage of employees benefit from the plan;

(b) if eligibility requirements, contributions, and benefits do not discriminate in favor of officers, shareholders, key or highly compensated employees.

*Determining the Amount of the Pension.*—Three methods that can be used for determining the amount of the pension are (1) the flat percentage plan, (2) the percentage of compensation times number of years of service plan, and (3) the money purchase plan.

Under the flat percentage plan, all employees are entitled to a stipulated percentage of their average compensation, as for example 30%. The plan may be criticized because no account is taken of the length of service. It is possible, however, to base the pension upon a percentage of annual salary times the number of future years of service. If desired by the employer, consideration can also be given for services prior to the introduction of the plan.

Under the money purchase plan the contribution is based upon a percentage of the employee's annual salary, as for example, 5%. This plan may seem undesirable since the fund contributed for an old employee will purchase only a small pension. This objection can be met by purchasing an annuity for the employee's past services.

**TYPES OF PENSION PLANS.**—Payment of pensions may be provided through insurance by the use of the following devices :

1. Trusteed Plan (Self-administration).
2. Fully Insured Plan (Individual Life Insurance Policies or Annuities).
3. Group Annuity Plan Fully Insured—  
But group underwriting principles are employed.

*The Self-administered Plan.*—Some employers may not desire to use an insurance company for pensions. Instead, the contributions may be given to a trustee who invests the funds. The funds and interest accumulated are used to pay the employees' annuities. An actuary must be employed to determine the contribution required for each employee. Reasons advanced for the use of the self-administered plan are based upon the following claims :

1. The employer, through the trustee, can administer the funds at lower costs than can an insurance company.
2. The employer, through the trustee, can make more favorable investments than can life insurance companies.
3. The cost, as developed by experience, will be entirely limited to the employees of a particular employer instead of depending on the experience of employees of various employers.

*Fully Insured Plan.*—Under the individual income endowment, the insurance company issues on the life of each employee an individual en-

dowment policy maturing at the retirement age. The amount purchased is sufficient to pay the employee the required pension on retirement. Under this plan, if the employee does not survive to the retirement age, the beneficiary will receive the stipulated amount of insurance as stated in the endowment policy. Since the contract involves life insurance protection, the applicant must usually be examined. If he is not accepted by the insurance company, then a deferred annuity contract is issued. The life insurance feature will appeal to employees. Those employees who do not pass the physical examination, however, may become dissatisfied.

The annual rate charged for each policy remains the same throughout the policy period. If the salary of the employee is increased and additional pension is required at a subsequent time, the employee must again be examined and a new policy issued. In such event the annual rate will be higher than the old policy, due to the increased age of the employee. The rate may also be affected by a change in rates used by the insurance company after the issuance of the original contract. Consequently an employer must consider the possibility of increased contribution if the salary of the employee is increased in the future and a new policy is required.

*Group Annuity Plan.*—Under the group annuity plan the employer annually purchases a deferred annuity contract for each employee; this makes a specified amount of pension available at retirement. The annual cost will depend upon the age and sex of each employee. This procedure is repeated annually for each eligible employee. The sum of the pension values of the deferred annuity contracts equals the amount of pension for the employee in accordance with the employer's pension plan. Unlike the individual income endowment plan, rates are usually guaranteed for only five years. In addition, group retirement annuities usually require a minimum coverage of 50 employees and at least 75% of the eligible employees.

The group-annuity-group-permanent form is a group life insurance and group annuity contract. Similar to group life insurance, a master policy is issued to the employer and a certificate is issued to each eligible employee. The master contract describes the various provisions found in the pension plan. While the individual income endowment plan is limited to endowment, the group permanent plan is available through whole life, limited payment, or endowment policies. In contrast to the individual income endowment plan, the group permanent plan requires no medical examination if all employees are insured under the same policy form, unless the insurance on an individual employee exceeds a stipulated amount.

Similar to the individual income endowment plan, rates are the same

throughout the period of the certificate. In addition, as in the group annuity plan, the insurance company usually guarantees the same rates on new certificates for a period of five years.

In accordance with the practices of life insurance companies, there must be a minimum of 50 employees entitled to benefits under the group annuity plan, but there is no minimum requirement where the individual income endowment plan is used.

**CONVERSION PLANS.**—The individual life insurance policy which provides retirement benefits involves a large premium payment. Therefore an employer may suffer a substantial loss if many participants leave his service before the cash value of their contracts bears a reasonable relationship to the premiums that have been paid. To avoid these potential losses and yet provide substantial death benefits, some pension plans provide for the use of ordinary life insurance or modified life insurance. The premium outlay for these contracts is lower than the premium outlay for individual policies that provide retirement benefits, but the cash value is also lower. Consequently an ordinary life policy would not provide the required monthly income at the normal retirement age of the worker. Insurance companies, therefore, permit the conversion of ordinary life insurance policies and modified life insurance policies into pension contracts at retirement age, provided that the employer will pay the difference between the cash value of the policy and the amount of cash required to make the pension payment due to the employee in one sum. The amount of this additional payment is stated when the original policy is issued. The employer therefore knows the amount of cash that will ultimately be required and he can arrange for the accumulation of this additional amount over a period of time by making deposits into a supplemental trust fund. This arrangement may be advantageous to the employer, since a substantial portion of the pension reserve is maintained in a fund which will not be affected by employment turnover. Nevertheless the required amount of life insurance protection is available to each participant. The death benefit may be provided by individual contracts, or if the group of employees should be large enough, through group permanent insurance.

**TAXATION.**—While the introduction of a pension plan will produce social advantages, the employer and employee will also obtain certain tax advantages. As stated previously, if the plan meets the standards required by the United States Treasury Department, the contribution made by the employer is considered a business expense and therefore is an allowable deduction in the employer's income tax return. On the other hand, the money contributed by the employer to the pension fund on

behalf of the employee is not considered as salary to the employee at the time when the contribution is made. Of course, when the annuity payment becomes available, usually at age 65, the annuity payment will have to be considered. At that time, however, there may be a material decrease in the pensioner's income.

If the pension plan provides for the purchase of life insurance, that part of the premium for the policy which represents the term cost of the insurance protection at any age is considered to be income to the employee in the year in which the premium is paid. The cost of the term insurance must be reported by the employee in his income tax return.

**Making of Life Insurance Rates.**—The premium paid for any life insurance policy must provide two elements :

1. Payment of death claims, which is called mortality cost.
2. Interest assumption.
3. Payment of expenses which are known as the loading.

In order to determine the cost of life insurance, assume that individuals aged 20, 40, and 60, respectively, are each applicants for a policy for \$10,000. The insurance companies would have to charge the one aged 60 the highest rate of premium for the obvious reason that they must take into consideration his lesser chances of living. For a long time the insurance companies have been studying methods to make the rates charged at each age proportionate to the risk assumed. This has resulted in mortality tables which aim to measure accurately the rate of mortality at each age.

**Mortality Tables.**—A mortality table can be constructed by studying the life history of a large number of individuals. Several of these studies have been made, and tables have been prepared, showing the life expectancy at various ages. Table 13, in general use by insurance companies for several years, is called the Commissioners' Standard Ordinary 1941 Table of Mortality.

**Value of Mortality Tables.**—The Commissioners' Standard Ordinary Table of Mortality can be used to illustrate the value of such a compilation for life insurance. For example, a company which has adopted the Commissioners' Standard Ordinary Table as a basis for mortality experience desires to sell a one-year term policy at age 35 for \$1,000. By looking at the table, the company finds that of 906,554 persons aged 35, 4,161 are likely to die during the year, and that the theoretical total cost for 906,554 persons aged 35 purchasing \$1,000 one-year term policies is \$4,161,000. By dividing the \$4,161,000 among the 906,554 persons,

the company can approximate the mortality charge to be made per person for one-year-term insurance. If the company desires to sell a two-year term insurance policy to a person aged 35, the company knows that there will be paid \$4,161,000 plus \$4,386,000, the figure for age 36, or a total of \$8,547,000. This amount must also be divided among the original 906,554 individuals.

Since life insurance premiums are paid in advance, a further factor must be considered. As stated in the preceding paragraph, the mortality cost of a one-year policy for \$1,000 at age 35 to each contributor may be determined by the following method:  $\$4,161,000 \div 906,554 = \$4.589$ .

Since the premium is paid in advance, however, the amount of \$4.589 is not the actual mortality cost. The money paid by the insured in advance would earn interest and theoretically death claims are assumed to be paid at the end of the year. If the assumption is made that the insurance company earns  $2\frac{1}{2}\%$  interest on money, at the end of the year it would have \$4,161,000 plus \$104,025, which equals \$4,265,025. The latter amount is more than necessary for meeting the death claims. The insurance companies should not demand \$4,161,000 in advance from the 906,554 contributors, but such an amount as would equal \$4,161,000 at the end of the year if invested at  $2\frac{1}{2}\%$ .

In order to understand how this amount is determined, the effect of compound interest on money invested must be mentioned. If \$1.00 were invested at  $2\frac{1}{2}\%$  interest, at the end of the first year the value of the investment would be \$1.00 plus \$.025, or \$1.025. If the accumulated money, that is \$1.025, were reinvested at the same rate of interest, the value of the investment at the end of the two years would be  $\$1.025 \times 1.025$ , which equals \$1.0506. If the investment, that is \$1.0506, were again reinvested at the same rate of interest, the value of the amount would be  $\$1.0506 \times 1.025$ , which equals \$1.0769. Table 14 illustrates the value of \$1.00 accumulated at  $2\frac{1}{2}\%$  at the end of various years.

Suppose it is desired to know what amount must be invested to accumulate to \$1.00 at the end of the first year if the money is invested at  $2\frac{1}{2}\%$  interest. From the table shown, if \$1.00 were invested at the beginning of the year at  $2\frac{1}{2}\%$  the accumulated amount would be \$1.025. Therefore if the accumulated amount will be \$1.00 at the end of the year, the value at the beginning of the year is  $\$1.00 \div 1.025$ , or \$.97561. This can be proved arithmetically as follows:  $\$.97561 \times 1.025 = \$1.00$ . Similarly, if it is desired to know what amount invested at  $2\frac{1}{2}\%$  for two years will amount to \$1.00, it may be obtained thus:  $\$1.00 \div 1.0506 = \$.95181$ .

The amount invested at the beginning of the period is called the *pres-*

ent worth. Table 15 shows the present worth or value required to be invested at the beginning of a year for a term of years, which accumulates to \$1.00 at the end of the term if the interest rate is 2½%.

By the use of a mortality table and an interest table, the various life insurance companies can determine the mortality cost to be charged for any policy. If the insurance company, under a one-year term policy at age 35, were required to pay \$4,161,000 at the end of the year, based upon the Commissioners' Standard Ordinary Table, the amount required to be paid in advance, if the assumed rate of interest is 2½%, would be as follows:  $\$4,161,000 \div 1.025$  or  $\$4,161,000 \times .97561$  which equals \$4,059,513. If this amount were distributed among 906,554 people, the cost of mortality at age 35 for a one-year term policy would be  $\$4,059,513 \div 906,554 = \$4.478$ .

If the insured should desire a five-year term policy at age 35, the cost of mortality would be determined as follows :

Due at End of Year	Present Value of \$1.00		Death Claims Payable	=	Present Value of Death Claims
1 . . . . .	\$.97561	×	\$4,161,000	=	\$4,059,513
2 . . . . .	.95181	×	4,386,000	=	4,174,639
3 . . . . .	.92860	×	4,625,000	=	4,294,775
4 . . . . .	.90595	×	4,878,000	=	4,419,224
5 . . . . .	.88385	×	5,162,000	=	4,562,434
Total Present Value of Death Claims During the Entire Five Years—					\$21,510,585

\$21,510,585 is divided by 906,554, the number living at the beginning of the period, the result, \$23.73, represents the net cost of a five-year term policy at age 35. This can be arithmetically represented as follows:  $\$21,510,585 \div 906,554 = \$23.73$ .

The mortality cost computed on the theory that the contribution is made by the insured in one sum instead of annually is called the *net single premium*. The procedure outlined above can be used with appropriate figures to determine the net single premium for the whole life policy at any age.

**Computation of Net Single Premium for Endowment Insurance.—**

In order to calculate the net single premium for the endowment policy, two factors must be considered: (1) payment of the claims at any time that death occurs; (2) payment to insured if he is living at the end of the insured period. Therefore the following must be considered in order to compute the net single premium endowment policy: (1) the cost of paying death claims; (2) the cost of paying the principal sum to the insured, if he is alive, at the end of the period.

**Net Annual Premiums.—**As is well known, the usual custom is not to pay the premiums in one sum but rather to pay these premiums an-

TABLE 13. COMMISSIONERS' 1941 STANDARD ORDINARY TABLE OF MORTALITY

Age	Number Surviving at Each Age	Deaths in Year	Deaths per 1,000 in Year	Expectation in Years	Age	Number Surviving at Each Age	Deaths in Year	Deaths per 1,000 in Year	Expectation in Years
0	1,023,102	23,102	22.58	62.33	50	810,900	9,990	12.32	21.37
1	1,000,000	5,770	5.77	62.76	51	800,910	10,628	13.27	20.64
2	994,230	4,116	4.14	62.12	52	790,282	11,301	14.30	19.91
3	990,114	3,347	3.38	61.37	53	778,981	12,020	15.43	19.19
4	986,767	2,950	2.99	60.58	54	766,961	12,770	16.65	18.48
5	983,817	2,715	2.76	59.76	55	754,191	13,560	17.98	17.78
6	981,102	2,561	2.61	58.92	56	740,631	14,390	19.43	17.10
7	978,541	2,417	2.47	58.08	57	726,241	15,251	21.00	16.43
8	976,124	2,255	2.31	57.22	58	710,990	16,147	22.71	15.77
9	973,869	2,065	2.12	56.35	59	694,843	17,072	24.57	15.13
10	971,804	1,914	1.97	55.47	60	677,771	18,022	26.59	14.50
11	969,890	1,852	1.91	54.58	61	659,749	18,988	28.78	13.88
12	968,038	1,859	1.92	53.68	62	640,761	19,979	31.18	13.27
13	966,179	1,913	1.98	52.78	63	620,782	20,958	33.76	12.69
14	964,266	1,996	2.07	51.89	64	599,824	21,942	36.58	12.11
15	962,270	2,069	2.15	50.99	65	577,882	22,907	39.64	11.55
16	960,201	2,103	2.19	50.10	66	554,975	23,842	42.96	11.01
17	958,098	2,156	2.25	49.21	67	531,133	24,730	46.56	10.48
18	955,942	2,199	2.30	48.32	68	506,403	25,553	50.46	9.97
19	953,743	2,260	2.37	47.43	69	480,850	26,302	54.70	9.47
20	951,483	2,312	2.43	46.54	70	454,548	26,955	59.30	8.99
21	949,171	2,382	2.51	45.66	71	427,593	27,481	64.27	8.52
22	946,789	2,452	2.59	44.77	72	400,112	27,872	69.66	8.08
23	944,337	2,531	2.68	43.88	73	372,240	28,104	75.50	7.64
24	941,806	2,609	2.77	43.00	74	344,136	28,154	81.81	7.23
25	939,197	2,705	2.88	42.12	75	315,982	28,009	88.64	6.82
26	936,492	2,800	2.99	41.24	76	287,973	27,651	96.02	6.44
27	933,692	2,904	3.11	40.36	77	260,322	27,071	103.99	6.07
28	930,788	3,025	3.25	39.49	78	233,251	26,262	112.59	5.72
29	927,763	3,154	3.40	38.61	79	206,989	25,224	121.86	5.38
30	924,609	3,292	3.56	37.74	80	181,765	23,966	131.85	5.06
31	921,317	3,437	3.73	36.88	81	157,799	22,502	142.60	4.75
32	917,880	3,598	3.92	36.01	82	135,297	20,857	154.16	4.46
33	914,282	3,767	4.12	35.15	83	114,440	19,062	166.57	4.18
34	910,515	3,961	4.35	34.29	84	95,378	17,157	179.88	3.91
35	906,554	4,161	4.59	33.44	85	78,221	15,185	194.13	3.66
36	902,393	4,386	4.86	32.59	86	63,036	13,198	209.37	3.42
37	898,007	4,625	5.15	31.75	87	49,838	11,245	225.63	3.19
38	893,382	4,878	5.46	30.91	88	38,593	9,378	243.00	2.98
39	888,504	5,162	5.81	30.08	89	29,215	7,638	261.44	2.77
40	883,342	5,459	6.18	29.25	90	21,577	6,063	280.99	2.58
41	877,883	5,785	6.59	28.43	91	15,514	4,681	301.73	2.39
42	872,098	6,131	7.03	27.62	92	10,833	3,506	323.64	2.21
43	865,967	6,503	7.51	26.81	93	7,327	2,540	346.66	2.03
44	859,464	6,910	8.04	26.01	94	4,787	1,776	371.00	1.84
45	852,554	7,340	8.61	25.21	95	3,011	1,193	396.21	1.63
46	845,214	7,801	9.23	24.43	96	1,818	813	447.19	1.37
47	837,413	8,299	9.91	23.65	97	1,005	551	548.26	1.08
48	829,114	8,822	10.64	22.88	98	454	329	724.67	.78
49	820,292	9,392	11.45	22.12	99	125	125	1,000.00	.50

TABLE 14. AMOUNT TO WHICH \$1.00 ACCUMULATES AT 2% AND 2½% AFTER END OF VARIOUS YEARS

Years	2 Per Cent	2½ Per Cent	Years	2 Per Cent	2½ Per Cent
1	1.0200	1.0250	26	1.6734	1.9003
2	1.0404	1.0506	27	1.7069	1.9478
3	1.0612	1.0769	28	1.7410	1.9965
4	1.0824	1.1038	29	1.7758	2.0464
5	1.1041	1.1314	30	1.8114	2.0976
6	1.1262	1.1597	31	1.8476	2.1500
7	1.1487	1.1887	32	1.8845	2.2038
8	1.1717	1.2184	33	1.9222	2.2589
9	1.1951	1.2489	34	1.9607	2.3153
10	1.2190	1.2801	35	1.9999	2.3732
11	1.2434	1.3121	36	2.0399	2.4325
12	1.2682	1.3449	37	2.0807	2.4933
13	1.2936	1.3785	38	2.1223	2.5557
14	1.3195	1.4130	39	2.1647	2.6196
15	1.3459	1.4483	40	2.2080	2.6851
16	1.3728	1.4845	41	2.2522	2.7522
17	1.4002	1.5216	42	2.2972	2.8210
18	1.4282	1.5597	43	2.3432	2.8915
19	1.4568	1.5987	44	2.3901	2.9638
20	1.4859	1.6386	45	2.4379	3.0379
21	1.5157	1.6796			
22	1.5460	1.7216			
23	1.5769	1.7646			
24	1.6084	1.8087			
25	1.6406	1.8539			

TABLE 15. PRESENT WORTH OF INITIAL INVESTMENT TO ACCUMULATE TO \$1.00 AT THE END OF A TERM OF YEARS AT 2% AND 2½%

Years	2 Per Cent	2½ Per Cent	Years	2 Per Cent	2½ Per Cent
1	.98039	.97561	24	.62172	.55288
2	.96117	.95181	25	.60953	.53939
3	.94232	.92860	26	.59758	.52623
4	.92385	.90595	27	.58586	.51340
5	.90573	.88385	28	.57437	.50088
6	.88797	.86230	29	.56311	.48866
7	.87056	.84127	30	.55207	.47674
8	.85349	.82075	31	.54125	.46511
9	.83676	.80073	32	.53063	.45377
10	.82035	.78120	33	.52023	.44270
11	.80426	.76214	34	.51003	.43191
12	.78849	.74356	35	.50003	.42137
13	.77303	.72542	36	.49022	.41109
14	.75788	.70773	37	.48061	.40107
15	.74301	.69047	38	.47119	.39128
16	.72845	.67362	39	.46195	.38174
17	.71416	.65720	40	.45289	.37243
18	.70016	.64117	41	.44401	.36335
19	.68643	.62553	42	.43530	.35448
20	.67297	.61027	43	.42677	.34584
21	.65978	.59539	44	.41840	.33740
22	.64684	.58086	45	.41020	.32917
23	.63416	.56670			

nually. For example, when an insured pays his premium annually, under a term policy, he usually pays an equal sum of money over equal periods of time and the principal is payable in case of death. To calculate the net annual premium, assume that a man aged 35 desires a five-year term policy. The following death payments will be made :

Age 35.....	\$4,161,000
36.....	4,386,000
37.....	4,625,000
38.....	4,878,000
39.....	5,162,000

Regardless of whether the insured pays his premium in one lump sum or annually, the insurance company must receive in contributions an amount that will pay all future death claims.

Assume that an insured, aged 35, pays a premium of \$1.00 annually instead of paying his premium in one lump sum. Also assume that the interest rate is 2½% and that the insured desires such an amount of insurance as can be purchased for a \$1.00 annual premium. The premiums paid to the insurance company over five years would be as follows :

Age	Number Paying	Amount Paid
35.....	906,554	\$906,554
36.....	902,393	902,393
37.....	898,007	898,007
38.....	893,382	893,382
39.....	888,504	888,504

The value of all these payments to the life insurance company if they were contributed at the beginning of age 35 instead of annually, assuming that the money is worth 2½%, would be :

906,554	×	\$1.000000	=	\$	906,554
902,393	×	.97561	=	880,384	
898,007	×	.95181	=	854,732	
893,382	×	.92860	=	829,595	
888,504	×	.90595	=	804,940	
				<u>          </u>	\$4,276,205

If this amount were divided among the 906,554 living at age 35, the amount contributed by each would be \$4,276,205 ÷ 906,554 = \$4.717. That is, instead of paying \$1.00 annually to meet the mortality cost for a certain amount of insurance for five years, the policyholder could contribute \$4.717 at age 35 in one premium and obtain the same amount of insurance. Since a net single premium of \$4.717 is equivalent to an annual contribution of \$1.00 paid for five years, a net single premium of \$23.73 (which, incidentally, is the net cost for a five-year term policy at age 35 for \$1,000) has for its equivalent an annual net premium found as

follows:  $\$23.73 \div 4.717 = \$5.030$ . The net premium paid annually in place of a net single premium is called the *net level premium*.

**Loading for Expenses.**—Up to this point only the determination of the cost of mortality has been considered. In addition to this cost, the element of expense in conducting the business must also be considered. Important factors in the expense of conducting the business are as follows:

1. Commissions—the amount paid to agents who write the business.
2. Medical examination and inspection report.
3. Administration, that is, the cost of conducting the home office and branch offices.
4. Taxes.
5. Establishment of contingency funds.

**First Year's Reserve.**—A very difficult problem that some life insurance companies have had to consider is how to provide sufficient money to meet the expenses and reserves required for the first year of a policy written on the annual premium plan. This problem does not concern the company with sufficient accumulated surplus. The principal reason for the difficulty is that commissions and the other acquisition expenses may amount to a very large percentage of the first year's premium. There is not sufficient balance to set up an adequate reserve. Theoretically, the company is in difficulty if a surplus has not been previously accumulated. In order to avoid this difficulty, the insurance companies have been permitted by law to introduce the following plans to meet the problem of the first year's reserves: full preliminary term plan and modified preliminary term plan.

**Full Preliminary Term.**—Under this method every insurance policy is considered in effect to be two insurance policies: a term policy for one year at the age of the insured, and then a regular insurance policy, assuming that the insured is one year older. No reserve is required at the end of the first year of the policy on the one-year term policy; as the policy has theoretically expired. Under this method the insurance company need not, therefore, provide for any reserve whatsoever at the end of the first year of the policy. The first year premium can be used for mortality cost for a one-year term policy, and the balance can be used to pay expenses. Policies with higher premiums at the same age will give the company more money to spend for expenses. A company, therefore, might prefer to issue an endowment policy rather than a whole life policy. This condition might lead to abuse, especially in connection with endowment policies, enabling the companies to spend much more than is necessary. To avoid this undesirable situation the second plan is used.

**Modified Preliminary Term.**—Under this plan the full preliminary term is permitted for policies for which the premium charged is not in excess of the premium charged for a 20-payment life policy.

**Reserves Under Life Insurance Policies.**—When a man purchases a one-year term policy, a portion of the premium is paid for the cost of mortality and the balance is used for expenses. Theoretically, there are no funds available at the end of the year. On the other hand, when an insured purchases a policy for a longer period, paying the premium annually, the entire premium is not used up in the earlier years for mortality cost and expenses. The annual premium plan enables the insured to pay the same rate throughout the premium-paying period. In the earlier years the premium, plus the interest earnings, is more than sufficient to meet expenses and the death claims. The excess is known as the reserve and is used to meet the deficit, which occurs later, between the amount paid by the insurance company for expenses and death claims and the sum it receives in premiums and interest earnings.

The amount of reserve depends upon the following factors :

1. **TYPE OF POLICY.**—The rate of premium varies for the same amount of benefit according to the type of policy, that is, term, endowment, limited payment, or ordinary life policy. The type of policy requiring the largest premium for \$1,000 of insurance at any given age will make available the largest reserve. Table 16 illustrates the reserves for various types of policies.

TABLE 16. COMPARISON OF TERMINAL RESERVES ON DIFFERENT POLICIES COMMISSIONERS' STANDARD ORDINARY.  $2\frac{1}{2}\%$ , \$1,000, AGE 45

Year of Insurance	Ord. Life (Single Premium)	Ord. Life (Continuous Premiums)	Ord. Life (20 Premiums)	20-Year Endowment Insurance (Continuous Premiums)	20-Year Term (Continuous Premiums)
1	\$ 561.38	\$ 22.31	\$ 31.41	\$ 38.82	\$ 8.74
2	571.46	44.77	63.30	78.38	17.16
3	581.60	67.38	95.68	118.70	25.20
4	591.80	90.11	128.55	159.83	32.81
5	602.03	112.93	161.92	201.78	39.91
10	653.56	227.77	337.08	426.01	64.87
20	753.73	451.07	753.73	1,000.00	00.00
25	799.41	552.88	799.41		
30	840.33	644.10	840.33		
40	904.66	787.48	904.66		
50	949.16	886.68	949.16		
55	1,000.00	1,000.00	1,000.00		

2. **AMOUNT OF INSURANCE.**—The premium increases proportionately with the amount of insurance for the same type of policy. The purchase of a policy for \$20,000 costs twenty times that of a \$1,000 policy. In other words, there must be a proportionate increase in reserve to meet the future liability.

3. **LENGTH OF TIME THE POLICY IS IN FORCE.**—The reserve must increase according to the length of time the policy is in force. This is illustrated in Table 16.

4. **THE INSURED'S AGE.**—The older the policyholder is when he purchases a specific type of policy, the greater is the mortality hazard, and therefore the higher the premium charged. This means, in turn (with the exception of term insurance), that for an older person there must be a different reserve accumulated for the same number of years a policy is in force than for a younger person.

5. **THE ASSUMED RATE OF INTEREST.**—The higher the assumed interest earnings, the lower will be the reserve to meet future death claims. This can be illustrated by Table 17.

TABLE 17. COMPARISON OF TERMINAL RESERVES ON ORDINARY LIFE POLICIES COMMISSIONERS' STANDARD ORDINARY. \$1,000, AGE 45. AT DIFFERENT INTEREST RATES

Year of Insurance	2%	2½%
1	\$ 23.74	\$ 22.31
2	47.57	44.77
3	71.46	67.38
4	95.41	90.11
5	119.38	112.93
10	238.88	227.77
20	466.29	451.07
25	567.99	552.88
30	658.07	644.10
40	797.75	787.48
50	892.99	886.68
55	1,000.00	1,000.00

**Assessment Insurance.**—It has been contended that if large numbers of individuals were insured, it would not be necessary to provide different rates for the various ages and no attention need be given to rate making. It is claimed that there could be collected annually from each member of the group, no matter what his age, a fixed sum, equal for all, to meet the cost of mortality. Such a method, known as assessment insurance, is utilized by a number of organizations.

The theory of assessment insurance does not seem to work in practice. It assumes a large number of members, whereas the assessment associations always have limited numbers. The result is that as the members grow older the annual cost of insurance does not remain constant but increases. Young members are constantly sought, but young men do not believe that they should be required to pay the cost of mortality of the older members of the organization. The result is that this type of organization tends to become insolvent after a period of years.

**Fraternal Insurance.**—The insurance plans of fraternal organizations were also originally based on the assessment plan, and the past history of many fraternal has been difficult. Their method of organization is as follows: Through paid solicitors and in some cases through voluntary solicitors, lodges are formed. The lodge offers the members social life as well as life insurance. In the past, many of these organizations with rates based on the assessment plan were forced into liquidation. To overcome difficulties the fraternal organizations jointly developed a special actuarial table known as the National Fraternal Congress Table.

Since the purpose of fraternal life insurance is to take care of dependents, it has been the custom of these organizations to issue only ordinary life insurance contracts. In order to meet the competition of stock and mutual life insurance companies, however, many of them now also issue various other forms of policies.

At the present time, fraternal generally operate on the same basis as the life insurance companies. The fraternal charge adequate premiums and maintain an adequate reserve. The life insurance transactions of fraternal are subject to special laws rather than the laws which govern life insurance companies. The reason for this difference in treatment is due to the relationship of the members and the fraternal. The fraternal usually retain the right of unlimited assessment if necessary. Instead of receiving the usual life insurance contract, the member will receive a certificate of membership indicating the amount of insurance.

**Savings Bank Insurance.**—In view of the fact that many industrial employees are also depositors in savings banks, it has been contended that the savings bank should be permitted to issue life insurance in order to meet the needs of industrial workers. This form of insurance, known as savings bank life insurance, is available in states such as Massachusetts, Connecticut, and New York. The first state to introduce this form of insurance was the State of Massachusetts. Insurance in that state is available through the insurance departments of the banks, which issue the principal standard forms of insurance policies and annuities. The

policy provisions are similar to those found in the contracts of life insurance companies. The nonforfeiture provisions are more liberal, however, as the cash value of the full reserve is allowed at the end of six months in New York and loans at the end of one year. Under the Massachusetts plan, the largest amount of insurance which can be obtained by one person from any one bank is \$1,000. The maximum annuity available is \$200 per annum. This amount is available in each bank which is permitted to issue savings bank life insurance. It is not necessary for the applicant to go to each bank, as an arrangement can be made whereby any one bank can handle the entire insurance application and distribute the total among the different banks.

The New York law is similar to the Massachusetts law, subject to several variations. The differences between these laws are these:

1. The total amount of insurance, and the amount of annuity, that can be issued by each bank is the same under both laws. Under the New York law, however, no savings and insurance bank can issue a policy to any applicant who has already obtained from other savings and insurance banks \$5,000 life insurance, exclusive of dividends and profits.
2. Under the New York law the policy must contain a provision which reads as follows: "The only assets of this savings bank which are liable for and applicable to payment and satisfaction of the liabilities, obligations, and expenses of the life insurance department of this savings bank are the assets of the life insurance department of this savings bank." In Massachusetts there is no such requirement, but the policies contain the following statement: "The assets of the Insurance Department of the Bank and the General Guaranty Fund, as provided for by statute, are liable for any obligation incurred by the bank on account of this policy."

Before purchasing a savings bank life insurance policy, the prospective policyholder should consider the need for independent advice concerning the policy form and provisions. The cost of such advice should be added to the premium charged by the savings bank. In addition, independent advice may be necessary during the policy period in order to solve problems arising from changes in the personal and financial condition of the policyholder.

### **The Effect of Federal Taxation on Premiums and Life Insurance Proceeds**

The payment of premiums, and receipt of the amount of insurance due under the policy, may be affected by the Federal income tax law, the Federal estate tax law, and the Federal gift tax law.

Under the Federal income tax law the payment of premiums by an insured is not a deductible expense. On the other hand, the proceeds received by the beneficiary are not reported as income. One exception to this principle must be noted. The premium paid by an employer for group insurance is a deductible expense. Similarly, the premium paid by an employer under an approved group annuity plan is deductible in the employer's income tax return.

The amount received by an insured during his lifetime under his policy is not considered to be income, except if the amount received is in excess of the amount of premiums paid by the insured, less dividends. The excess amount over the premiums paid, less any dividends, is subject to the provisions of the income tax law. For example, assume that a man aged 35 paid \$47.71 for a 20-year endowment to a stock company. Consequently \$954.20 in premiums was paid to maturity. If the insured received \$1,000 upon the maturity of the policy, he would have to report as income in his tax return the difference between \$1,000 and \$954.20, that is \$45.80.

Although on the death of the insured, if the principal is paid to the beneficiary, there is no Federal income tax payable, nevertheless, if the money is permitted to remain on interest with the insurance company, the interest received is regarded as income to the beneficiary. However, if the money remains on one of the option payments with the insurance company, such as 20-years certain and thereafter for life, the excess, if any, paid over the face amount of the policy is not subject to the income tax law.

Under an annuity contract, the annuitant must report an amount which is equal to 3% of the premiums paid for the annuity contract. Therefore if the amount paid for the annuity is \$10,000, and if the annuitant received \$450 per year, he would have to report annually \$300. After the total deductions of \$150 annually equal \$10,000, he would have to report the entire annual pension.

**The Federal Estate Tax.**—At the present time no Federal estate tax is levied on the deceased's estate up to \$60,000. Any amount in excess of \$60,000 is subject to taxation under the Federal estate tax law. The amount of every policy must be reported in the estate of the deceased in which he had an incidence of ownership, whether payable to his estate or a named beneficiary. Incidence of ownership can be shown, for example, by the fact that the insured had the right to change the beneficiary or he could have surrendered the policy for the cash value.

On the other hand, if the insured had no incidence of ownership, the policy would not be included in his estate. For example, a wife might have taken a policy on the life of her husband and paid all the premiums

out of her own funds. Since she is the owner of the policy, the policy proceeds would not be included in his estate.

**Marital Deduction.**—The Revenue Act of 1948 has provided an opportunity for a married individual to reduce the tax which is payable at his death. This can be accomplished by the use of the marital deduction. The deceased can, by his will, leave up to 50% of his estate to his spouse or create a trust in his will up to that percentage, provided that the surviving spouse can distribute by will any balance remaining. The marital deduction is important in connection with life insurance and estate tax planning. Suppose a married man dies leaving life insurance and other assets resulting in a net taxable estate of \$200,000. The term net estate means the gross estate less the sum of debts and administration and funeral expenses. The Federal estate tax for a net estate of \$200,000 is \$31,500. If he leaves half of his estate outright or in trust to his wife with the power to dispose of the balance of the trust, the total estate for taxation purpose would be considered \$100,000 and the inheritance tax would be \$4,800.

**The Federal Gift Tax.**—Under the Federal law, gifts made by individuals are subject to the gift tax. The amount of this tax is approximately  $\frac{3}{4}$  of the estate tax rate for the same amount payable after de-  
cease. There is an annual exemption of \$3,000 per person made by the donor, except gifts of future interests. In addition to the annual exemption to each individual donee, there is an additional exemption of \$30,000 during the lifetime of the donor applicable to all Federal gift taxes since the enactment of the law. Consequently, if a gift of a life insurance policy or annuity contract is made to an individual, the gift would be subject to the gift tax law if in excess of \$3,000 and if the donor had previously used the total exemption of \$30,000. The value of the gift is determined in accordance with various Federal rulings governing the valuation of a life insurance policy or an annuity contract.

These rules apply to single men and women. For married men and women the regulations are more favorable. A married person may give \$6,000 as a gift to any person without any gift tax liability each year. In addition, the married person may give away \$60,000 in his lifetime without being subject to a gift tax. These increased amounts are available, due to the gift tax rule which considers a gift of property owned by either spouse to be made  $\frac{1}{2}$  by the husband as an individual and  $\frac{1}{2}$  by the wife as an individual. After the specific lifetime exemption of \$60,000 has been used, there is no further exemption for the insured and his wife. However, he can continue to give annually \$6,000 to any person before becoming subject to the gift tax law. In connection with

gifts made by the spouse, the law requires that the consent of the other spouse must be obtained before the combined exemptions of \$60,000 and the gift of \$6,000 to any individual may apply.

There is one peculiar gift tax ruling which must be considered by the insured before giving a policy on his life as a gift. This ruling provides that although a gift tax was paid, any gift of life insurance made after January 1, 1941, is included in the gross estate of the insured in proportion to the total premiums paid on the policy by the insured. For example, if the deceased paid  $\frac{1}{4}$  of all the premiums disbursed on a \$100,000 policy, and if the donee of the policy paid  $\frac{3}{4}$  of all the premiums, even though a gift tax was paid,  $\frac{1}{4}$  of the policy, that is, \$25,000, would have to be included in the estate of the deceased under the Federal gift tax provisions. This practice is different from that applicable to the gift of any other property. In all other cases, if property is transferred by a gift, the donee is considered to be the owner and the donor's estate has no further interest.

**Partnership Insurance.**—The effect of the Federal income tax laws must be considered in connection with policies purchased for business use. For example, *A* and *B* may be partners, and each may have an interest amounting to \$15,000. Suppose *A* purchases insurance on *B*'s life for \$15,000, and *B* purchases insurance on *A*'s life for \$15,000 so that the respective partnership interests can be obtained by the survivor. Assume that *A* dies. The amount of insurance held by *B* would be paid for *A*'s partnership interest. The estate of the deceased would not have to report the amount of insurance for estate tax purposes since *A* never owned the policy. On the other hand, although the surviving partner apparently made a gain of the share of the deceased partner, the amount of the partnership interest would not be reported as income in the survivor's income tax return.

### QUESTIONS AND PROBLEMS

- (a) An agent has interested *A* in life insurance. He has a family of three children. He owns a home on which there is a mortgage for \$8,000. He expects to send his children to college. Explain how life insurance can meet some of *A*'s problems.
- (b) *A*, *B*, *C*, and *D* are equal stockholders in a corporation. The stockholders actively participate in the business of the corporation. These men desire to limit their respective interests to the period of their individual lives. How may this purpose be accomplished by life insurance, and what is the basis for determining the amount of life insurance to be purchased?

- (c) *E* is a production manager of a corporation. His death would mean a severe financial loss to the corporation. How can the corporation protect this possible loss?
- M* carries the following life insurance: (a) A policy for \$5,000 providing insurance for five years with premiums annually. (b) A policy for \$1,000 with a premium payable annually for life. (c) A policy for \$2,000, premiums payable for ten years, and at the end of that time the face of the policy payable to the insured. (d) A policy for \$5,000, premiums payable for 30 years, at the end of which time no further premiums are to be paid but insurance is to continue for life. What is the name of each of these policies?
  - P* had a five-year term policy. At the end of five years he applied for another policy but was rejected. What procedure might have been used to avoid this contingency?
  - Discuss the advantages and disadvantages of (a) term insurance, (b) ordinary life insurance, (c) endowment insurance, (d) limited payment life insurance.
  - Which form of insurance, if any, should be purchased by or for the following: (a) A civil service employee earning \$3,000 annually. (b) A physician who is at the present time 35 years old and who earns \$7,500 per annum. (c) A child 15 years old.
  - Q* has limited funds for insurance and desires to purchase \$10,000 insurance at the present time. He prefers a form of ordinary life insurance to that of term insurance. He has funds available for spending \$200 for insurance on the annual premium basis. Prospects are that in the future his earning capacity will increase. What type of policy would you suggest?
  - Z* purchased a 20-year family income policy and a family maintenance policy with payments for 20 years. What is the company's liability under each policy if *Z* died (a) two years after the policies were issued; (b) 21 years after the policies were issued?
  - (a) *K* and *L* are partners. They desire to purchase insurance in favor of each other, covering the partnership interest of each in the business. The value of each partner's interest is \$25,000. One agent has suggested that each purchase a policy on the life of the other for \$25,000. Another agent has suggested a joint life policy for \$25,000. Which plan should be used?  
(b) *A* has purchased a new home, obtaining a \$10,000 20-Year Amortizing Mortgage. What steps should *A* take to be certain that in event of his death the mortgage will be paid?
  - A* is 35 years old, *B* is 25 years old, and *C* is 50 years old. Each individual has \$500 available annually for insurance. How much insurance may be purchased by each of these individuals under the various plans shown in Table 1 in (a) participating companies, (b) in nonparticipating companies. Give your answer to the nearest \$1,000 of insurance. What are the reasons for the variations in the amount of insurance?

10. *G* desires to protect his family by life insurance. He is engaged in a highly speculative business. At the present time he has a large cash surplus.
- What method of paying the premium should be suggested to *G*?
  - What are the advantages and disadvantages of this plan?
11. Explain the company's liability under the following circumstances:
- A*'s policy for \$2,500 had been in force for ten years. His premium was due on January 1, but he had no money available to pay the premium. The amount of premium was \$50. *A* died January 15.
  - C* was a beneficiary in *A*'s policy. *A* stated to *E* that *E* was now the beneficiary in *A*'s policy, but no notification was sent to the insurance company. Subsequently, *A* died.
  - A* obtained a life insurance policy on January 10, 1948. He did not advise the insurance company in his application that he had other life insurance policies with various companies. *A* died on January 15, 1950.
  - A*'s policy had been in force for five years when it lapsed. Two months later *A* requested the reinstatement of the policy. The company refused to reinstate the policy because of the business in which *A* was then engaged.
12. (a) *M*, aged 35, purchased an ordinary life policy, a twenty-year endowment, and a twenty-payment life, each for \$5,000. After the policies had been in force for 15 years, *M* desired to surrender these policies to the insurance company. State the rights and the amounts and other benefits to which *M* is entitled under these policies.
- (b) *M*'s policy had been in force for five years. The company sent him a premium notice, but the letter was returned stating that *M* did not live at the address given in his application for insurance. Six months later *M* returned from a sanitarium where he had been attempting to recover his health. He could not pass a physical examination for a new life insurance policy. What method could *M* have used to retain his life insurance policy although he did not pay his premium when required?
- (c) *M* purchased a \$25,000 ordinary life insurance policy at the age of 35. After paying premiums for ten years, he required funds for his business. By reference to Table 2, indicate to what extent the policy will solve his financial problem.
- (d) *M* can borrow \$4,500 on his policy. Explain the loan privilege.
- (e) Explain the following figures for a 20-year endowment policy:

Year	Cash or Loan Value	Paid-up Insurance	Extended Term	
			Years	Days and Cash
10	\$415	\$525	10	. . . \$457

13. (a) What are the sources available for dividends to policyholders in mutual life insurance companies?
- (b) *R*, who has a policy in the *B Mutual Life Insurance Company*, is

notified by the company that he is entitled to a dividend of \$25. What are his optional rights in connection with these dividends? If *R* is a man of independent means, which option would you recommend?

14. (a) *X* has \$50,000 worth of life insurance, and his wife, aged 55, is beneficiary. She has had no business experience. The policy provides a lump sum payment to the beneficiary. Discuss this plan and state your recommendations.
- (b) What factors should be considered in connection with income insurance?
- (c) Of what benefit is the "spendthrift clause" to a beneficiary receiving life insurance income?
15. Explain the company's liability in the following:
  - (a) *Y* obtained a policy for \$5,000 on June 10, 1950. His annual premium was \$150. After the policy had been in effect for ten months, *Y* committed suicide.
  - (b) *Y* stated in an application for insurance that he was 30 years old. The fact was that *Y* was 38 years old when the policy was issued. The amount of insurance was \$1,000. The premium at age 30 was \$24 and the premium at age 38 was \$31. After the policy had been in force five months, *Y* died.
  - (c) *Y* had a policy for \$5,000 payable to his estate. *Y* assigned his policy to the *B Bank* as collateral for a loan. He did not notify the insurance company. Upon *Y*'s death, the bank demanded the insurance proceeds.
  - (d) The *A Insurance Company* issued a policy to *P* providing for a premium of \$20 per annum. The agent of the life insurance company placed an endorsement on the policy, reducing the premium to \$15 per annum. *P* offered to pay \$15, but the company refused to accept this amount.
16. *N* had a policy for \$5,000 with a disability income provision for \$10 per month per \$1,000 insurance. What would the company's liability be under the following circumstances:
  - (a) *N* became totally disabled at age 40, but continued to receive an income from his business.
  - (b) *N* was disabled for four months.
  - (c) *N* was disabled for ten months.
  - (d) *N* was disabled for eight months, and a dividend of \$20 had been declared during that period.
  - (e) *N* was disabled for 15 months. He desired to make a policy loan.
  - (f) *N* has been disabled for two years. The company desired to examine *N*, but he refused to permit the company to make the examination.
  - (g) *N* has been disabled for five years. His doctor advised him that he would be permanently and totally disabled. He requested the company to compute all future payments in one lump sum.
  - (h) *N* attempted to commit suicide and as a result of the injury became totally and permanently disabled.

- (i) As a result of an injury at the age of 65, *N* became insane. The premium required for life insurance was \$50, plus \$6 for disability income.
  - (j) When *N* purchased the policy, he misstated his physical condition. He became permanently disabled after the policy had been in force for ten years.
  - (k) If *N* is receiving \$50 per month disability income on a \$5,000 ordinary life policy and reached age 65.
17. *Q* had an ordinary life insurance policy for \$1,000 with a double indemnity provision. Describe the company's liability under each of the following circumstances:
- (a) At the age of 66 *Q* was killed in an automobile accident.
  - (b) *Q* was injured in an accident and died 40 days thereafter.
  - (c) While temporarily insane, *Q* shot himself and subsequently died.
18. (a) Outline the general provisions contained in the application for life insurance.
- (b) Outline the procedure used in issuing a life insurance policy after the application for the policy has been received by the company.
19. Explain the reasons for the introduction of nonmedical life insurance.
20. An insurance company has been offered several risks which the company claims do not meet its requirements for standard risks. One applicant is a policeman. Another applicant has recently recovered from a serious illness. A third applicant indicates a history of tuberculosis. State the plans that may be used to insure the lives of these applicants.
21. (a) *Z* has insurance policies in fifteen life insurance companies. For the purpose of distribution of the proceeds he desires to consider all these policies as a unit. He wishes to distribute the amount of insurance in a manner similar to the complicated plan he designated for the distribution of his personal assets under his will. He finds that the optional provisions will not accomplish the result. What plan may he use?
- (b) Distinguish between two forms of insurance trusts.
- (c) What are the factors to be considered when using an insurance trust?
22. Compare industrial insurance and ordinary insurance in reference to collection of premium, medical examination, and unit of premium.
23. *L* purchased an industrial life insurance policy. What is the liability of the insurance company in the following cases:
- (a) One week later, he returned the policy.
  - (b) After paying five premiums, *L* was unable to meet the next premium and died three weeks later.

- (c) After *L*'s death an undertaker, not mentioned in the policy, filed his bill for \$300 with the insurance company.
  - (d) *L* assigned his policy to *C*.
  - (e) The policy lapsed after being six months in force. *L* demanded reinstatement of his policy two years later.
24. Compare ordinary insurance and industrial insurance with reference to nonforfeiture privileges, dividends, disability income, and double indemnity.
25. (a) What are the reasons for the purchase of group insurance?
- (b) *A*, an employer, had purchased group insurance for his employees. At the time the policy had been issued, *B* had been absent from *A*'s employment on account of illness. Subsequently he returned. Has *B* any rights to group insurance benefits?
  - (c) *A*, an employer, requests an agent to obtain a group insurance policy under the ordinary life plan. Discuss the possibility of obtaining such insurance.
  - (d) Explain whether a group insurance policy may be obtained by the following applicants:
    - (1) *A*, an employer, who has 20 employees.
    - (2) *B*, an employer, has 600 employees. The employees and the employer agreed to pay the premium jointly. Some 200 employees have agreed to become members of the plan.
    - (3) *C*, an employer, has 100 eligible employees. He desires to pay the entire premium, but he wishes to include only 60 eligible employees.
    - (4) *D*, an employer, desires a provision requiring that the employees shall be eligible to the benefits of the plan only after employment for 12 months.
  - (e) What plans may be used to determine the amount of the insurance for each employee in group insurance?
  - (f) *B* was in *A*'s employ for six years and a member of a group insurance plan. What are the rights of *B*'s dependents under the group insurance plan if he dies within (1) three months, (2) ten days after leaving *A*'s employment?
  - (g) After *C* had been employed for ten years, he became totally disabled and therefore had to leave his work. *C* died six years after leaving his employment. What is the company's liability?
  - (h) *A*, an employer, desired to discontinue his group insurance which was in force for (a) four years, (b) six years. What are the rights of the employee, *G*, who had a group insurance certificate for \$6,000?
  - (i) *A* desired to renew his group insurance policy which has been in force for one year. He now has 18 employees. Discuss the continuance of this policy.
  - (j) Summarize the provisions concerning dividends, surrender values, and assignment in group insurance policies.

- (k) What groups of individuals may obtain group insurance?
- (l) Name the factors to be considered in the purchase of group insurance.
26. *P*, who has 20 employees, desires to obtain insurance for them. What plans of insurance are available?
27. (a) *Z* desires to purchase an annuity. He is 60 years old and in poor physical condition. Discuss the possibility of obtaining an annuity from an insurance company.
- (b) *Z* purchased an annuity providing for payments semiannually after the annuity has been issued. *Z* also purchased an annuity providing for payments semiannually ten years after issue. What are the names of these annuities?
- (c) *Z* paid \$15,907.20 for the purchase of an annuity, providing for \$100 a month for life. *X* paid \$21,036 for the purchase of a refund life annuity providing for \$100 per month. Suppose *Z* and *X* had received \$5,000 under their respective annuities by the time of their deaths. What is the remaining obligation of the company, if any?
- (d) *A*, aged 40, paid one sum for the purchase of an annuity providing for \$100 per month for life, beginning with age 60. *B*, aged 40, paid a premium each year so that at age 60 he had funds available with the insurance company to obtain \$100 a month for life. What type of annuity did *A* purchase and what type of annuity did *B* obtain?
28. (a) *R* purchased a retirement annuity for \$100 per month with guaranteed payments for ten years. After receiving payments for five years, *R* died. Describe the obligation of the insurance company under this annuity.
- (b) Describe the rights of the beneficiary under the retirement annuity contract if the purchaser of the contract dies before the retirement age.
- (c) *R* purchased a retirement annuity and agreed to pay premiums for 25 years. After paying premiums for ten years, *R* desired to surrender his contract. Discuss the obligations of the insurance company.
- (d) Suppose that, in the above problem, *R* had commenced to receive the annuity.
- (e) *R* purchased a retirement annuity providing for payments to commence at age 70. After making 15 payments, *R* desired to change his contract so that payments would commence when he reached age 60. What are *R*'s rights?
29. (a) *A* and *B* purchased a joint and survivorship annuity providing for payment of \$100 per month. *A* died. Discuss the rights of *A*'s estate and of *B*.
- (b) What is an objection to joint and survivorship annuities, and how may this objection be avoided?

30. What factors should be considered in purchasing an annuity?
31. (a)  $Q$  has 150 employees whose annual earnings vary from \$25,000 to \$2,500. Ten employees are over 60, and all have worked for  $Q$  more than 20 years. Employees with more than two years of service number 100, and of these, 80 have five years' service. Discuss the cost factors affecting the introduction of a pension system by  $Q$ .
- (b) Suppose that, in the above problem,  $Q$  desired to limit the benefits of the plan to clerical employees. Explain whether the costs of the plan would be a permissible deduction in  $Q$ 's Federal income tax return.
- (c) Describe three methods used for determining the amount of the employee's retirement annuity.
- (d) Describe three plans that can be used for employee's pensions.
- (e) How do Federal taxes affect the annuity paid to the employee?
32. (a) What are the basic elements for making life insurance rates?
- (b) Describe the construction of the Commissioners Standard Ordinary Table of Mortality.
- (c) Compute the net single premium for a \$1,000 five-year term policy at the age of 40, using the Commissioners' Standard Ordinary Table of Mortality, with the interest assumption of  $2\frac{1}{2}\%$ .
- (d) Compute the net single premium for a \$1,000 ordinary life policy at the age of 94, using the Commissioners' Standard Ordinary Table of Mortality and interest at  $2\frac{1}{2}\%$ .
- (e) Compute the net level premium for a \$1,000 five-year term policy at the age of 40, using the Commissioners' Standard Ordinary Table of Mortality and interest at  $2\frac{1}{2}\%$ .
33. (a) What are the various items of expense that must be considered in connection with life insurance premiums?
- (b) Describe the problem of the first year's reserves and the methods that are used for solving this problem.
- (c) Describe the factors on which the amount of reserve depends.
34. (a) Compare assessment insurance with ordinary insurance.
- (b) Compare fraternal insurance with ordinary insurance.
35. Compare the life insurance policies issued by savings banks with similar policies issued by the life insurance companies.
36. Explain the effects of the Federal income tax in the following:
- (a)  $A$  paid a premium of \$250 for life insurance annually.
- (b)  $B$  was the beneficiary of a policy for \$5,000.
- (c)  $C$ , an employer, paid \$20,000 annually for group insurance.
- (d)  $D$  received \$1,000 on the maturity of an endowment policy for which he had paid premiums amounting to \$900.
- (e)  $E$  died, leaving a policy of \$50,000 payable to his wife. Under the policy options, the insurance company was required to pay interest on \$25,000, and the balance was used to provide guaranteed payments to the wife for 20 years, and thereafter if living.
- (f)  $F$  paid \$20,000 for an annuity and received \$1,280 annually.

37. Discuss the effect of the Federal estate tax for the following:
- (a) *S*, who was unmarried, died leaving a policy for his mother amounting to \$40,000. The balance of his personal estate was \$50,000.
  - (b) *M*, who was married, died leaving an insurance estate of \$24,000 and the balance of his property was \$66,000. He named his wife and children as direct beneficiaries of all his property.
  - (c) *N*, who was married, lived in a noncommunity property state. At his death, he left \$40,000 insurance and \$80,000 of other property both real and personal. His entire estate was left for disposition by the executors.
  - (d) Define the term "net estate" of an individual at death?
  - (e) Define "marital deduction" and state methods by which a person can use this deduction.
  - (f) An insured made his wife the beneficiary of his policy and used the option providing twenty-payment certain and to continue if she survives the period of time. How could the proceeds of this policy be made subject to the marital deduction exemption?
38. (a) What is the Federal gift tax law?
- (b) What is the annual exemption for a single individual?
  - (c) Explain under what circumstances the individual exemption for gifts can be increased by a married man.
  - (d) Explain the lifetime gift tax exemption. How does this apply to married individuals?
  - (e) *X* and *Y* were partners. *X* obtained \$50,000 life insurance on the life of *Y*, subject to an agreement that on *Y*'s death the proceeds of the policy were to be used to purchase the stock of *Y*. Discuss the effect of the proceeds of the insurance as respects *X*'s income tax return and Federal estate tax for *Y*'s estate.

## CHAPTER 4

### FIRE INSURANCE

**Origin of the Standard Policy.**—The annual fire loss in the United States is a stupendous sum. In view of these large losses it is not surprising that the premiums paid for fire insurance amount to many millions of dollars annually.

Formerly each insurance company issued its own policy form, and therefore the different companies had different provisions in their policies. The variations in policy provisions caused many losses to be referred to court decisions, and in each case an interpretation of the policy was necessary in order to determine whether or not the loss was included under that particular contract. This condition produced dissatisfaction. Finally the various legislatures began to take an interest in the provisions of fire insurance policies. Legislation was enacted requiring that certain provisions be included in all fire insurance policies. The policy based upon these provisions is known as the "standard fire insurance policy." This policy, with modifications, is used practically throughout the United States at the present time. For the purposes of this chapter, reference will be made to the present New York Standard form which has been in use in New York State since July 1, 1943. Forms used in some of the other states do not have exactly the same provisions as the New York Standard form. An analysis of the New York State standard fire insurance policy, which also includes the peril of lightning, may be based upon the following topics :

1. The insured.
2. Description of the property covered.
3. Risk assumed by the insurance company.
4. Procedure in connection with the adjustment of losses.
5. Contribution among the various insurance companies covering the same property.
6. Basis of valuation of losses.
7. Endorsement and waiver.
8. Cancellation of the fire insurance policy.
9. Mortgage interests.

**The Insured.**—Under the policy, the insurance company assumes liability to a specified individual, partnership, or corporation. If the in-

sured is an individual, the policy is not terminated by the death of the insured. The coverage is continued for the legal representatives of the insured.

An insured may have guests at his home or employ servants. If the property of the guests and servants is destroyed, the company would not be liable for it. Such coverage may be granted by endorsement by including household guests (excluding roomers and boarders) and servants as insured in the policy.

A merchant may hold property in trust or on consignment, or he may be legally liable for stock he does not own. Coverage is granted for property owned by the insured. In addition, the policy can cover his interest in and legal liability for the property held in trust, or on commission, or on joint account with others, or on consignment, or for repairs, or in storage, or otherwise sold but not delivered or removed. This subject is important for merchants who hold merchandise on consignment.

Warehousemen who accept goods for storage from others may obtain a policy covering "as interests may appear." This provision protects the owners of goods stored in the warehouse, even though the names are not mentioned in the policy.

**Description of the Property Covered.**—The policy requires that the property and the place where it is located should be clearly described. In other words, the policy is limited to coverage at a specified place. The reason for this provision is that the rate charged depends upon the location as well as on the nature of the property. The statement that the property is insured only at a specific place permits of one exception, however. If a fire necessitates the removal of property, protection continues at a proper new location for five days after removal of the property.

Certain forms of property are not covered by the insurance policy. These include accounts, bills, currency, deeds, evidences of debt, money, and securities. The main reason advanced for the exclusion is the difficulty in valuing such property and in proving the loss. In addition, there is no coverage for bullion or manuscripts unless specifically endorsed on the policy.

The property covered by a policy insuring a building may be described as follows :

Building, additions and extensions attached thereto, including architects' fees, vaults, boilers, engines, machinery, apparatus and permanent fixtures belonging to the building and pertaining to its service, in, on, or attached thereto; and sidewalks, arbors (but excluding trees, plants, and shrubbery), fences, yard fixtures and similar property appurtenant to the building; signs, storm doors and sash owned by the insured in, on, or attached to buildings or while stored in any outbuilding.

The property covered by a household furniture policy may be described as follows :

Household furniture and personal property of every description, useful and ornamental, including beds, bedding, linen, wearing apparel, plate, plated ware, silver, crockery, china, glassware, chandeliers, gas and electric fixtures, improvements and betterments, printed books and music, pictures, paintings and engravings and their frames, carpets, rugs, bronzes, ornaments, bric-a-brac, clocks, statuary and other works of art and objects of virtu, pianofortes and other musical instruments, records, music rolls, scientific instruments, radio receiving equipment, sporting implements, guns, bicycles, articles of amusement, military equipment, billiard tables and appurtenances, curiosities, sewing machines, tools, awnings, screens, mirrors, baby carriages, watches, diamonds, jewels and all other jewelry in use, fuel and family stores, the property of the insured, or of any member, guest, or servant of the household.

The property covered by a policy insuring mercantile stock and fixtures may be described as follows :

1. On stock of merchandise consisting principally of ——— —
2. including cost of labor performed thereon, and including supplies and ingredients therefor and packages and packing materials ;
3. on furniture, fixtures, machinery, equipment, tools, office supplies, bullion, manuscripts, wearing apparel of employees, and all other personal property not described in Item I above.
4. on improvements and betterments to the building : all while contained in, on, or attached to the building, and additions and extensions attached thereto, yards and vault, located at the premises described.

**PERIOD OF COVERAGE.**—Liability is assumed from noon of the day on which the policy is to become effective, and it expires at noon on the date specified in the policy. In order to avoid any misunderstanding concerning the meaning of the word noon, the policy defines the word to mean noon at standard time at the place where the property is located.

**Risk Assumed by the Insurance Company.**—As stated previously, the insurance company agrees to pay for any direct loss and damage by fire and lightning. If, as a result of the fire, certain property is damaged by smoke or by water or by any other agent incidental to the peril, such loss will also be paid. Limitations in connection with the obligation assumed by the insurance company to pay for the loss are: (1) change in conditions and (2) hazards not covered.

**CHANGE IN CONDITIONS.**—The policy is written on the assumption that normal conditions will surround the property at the time of the loss, these conditions being known to the insurance company. The policy

contract, therefore, provides that any of the following changes in conditions will make the policy void and of no effect while the changed condition exists, unless permission for such change is endorsed on the policy.

1. *Increase in Hazards.* If the insured, by changing the conditions, should increase the hazard assumed by the insurance company, it may fairly be stated that the insured has violated his original contract, and that the insurance company should not be held liable. The policy therefore provides that the company is not liable while the hazard is increased by any means within the control or knowledge of the insured.

2. *Other Insurance Without the Consent of the Insurance Company.* Suppose the insurance company has issued a policy for a certain amount upon a property, and that the insured subsequently obtains additional insurance on the same property from other companies. The property may then be covered for more than its value. If the property is over-insured, there may be a serious moral hazard. To avoid this hazard by endorsement the policy may be voided while other insurance is carried without the consent of the insurance carrier. Other insurance is permitted unless prohibited by endorsement.

3. *Special Condition.* The presence of the following condition may increase the fire hazard beyond the normal; that is, vacancy or unoccupancy beyond 60 consecutive days. If the owner is absent from the premises for long periods of time, there is danger of fire from malicious mischief-makers.

4. *Assignment Before Loss.* The policy provides that assignment is not valid except with the written consent of the company. The reason for this is that the insurance is given to cover property owned by a particular individual. In fact, a primary consideration upon the issuance of a fire insurance policy is the status of the owner. Therefore, if the policy could be assigned before the occurrence of a loss, insurance might be granted to an individual whom there was no intention of protecting. The policy itself, however, may be pledged by the insured as collateral for a loan upon the property. There is no prohibition against this. It may be noted, also, that there is no prohibition against assignment after the loss occurs. The company is then under obligation to pay; therefore, after a loss occurs, the insured may assign his right against the company.

5. *Fraud or Concealment.* The insurance company is not liable:  
(a) If the insured has concealed or misrepresented any material fact or circumstance concerning the insurance or the subject thereof or the interest of the insured in the property. (b) In case of any fraud or false swearing by the insured.

**HAZARDS NOT COVERED.**—Losses due to certain circumstances are not covered. Among these are the following :

1. *Enemy Attack, Etc.* The company is not liable for losses by (a) enemy attack by armed forces, including action taken by military, naval, or air forces in resisting an actual or an immediately impending enemy attack; (b) invasion; (c) insurrection; (d) rebellion; (e) revolution; (f) civil war; (g) usurped power; (h) order of any civil authority except acts of destruction at the time of and for the purpose of preventing the spread of fire, provided that such fire did not originate from any of the perils excluded by the policy. If a fire occurs as a direct or indirect result of invasion or the other hazards mentioned above, it cannot be assumed to be due to normal contingency, and therefore the losses caused by these perils are excluded by the policy.

2. *Theft.* The policy provides that the insurance company shall be liable only for losses directly due to fire. If theft occurs as a result of fire, the company is not liable for the property stolen. (See page 111.)

3. *Loss Due Solely to Explosion or Riot.* These two casualties are not considered to be fires. If a fire ensues, however, the insurance company is liable for the losses caused by the fire.

4. *Neglect of the Insured.* The company is not liable for loss due to neglect of the insured to use all reasonable means to save and preserve the property at and after a fire or when the property is endangered by fire in neighboring premises. For example, the insured should not permit goods to remain as they are after the fire has occurred. His duty is to dry the goods which might spoil, and he should oil or grease machinery in order that the machinery should not become rusted. In addition, he should do everything that a careful and prudent man would do if he had carried no insurance.

**Procedure in Connection with the Adjustment of Losses.**—If a loss occurs upon the insured's premises, the policy does not permit him to abandon his property. He must use adequate means to protect the property properly against further loss. As soon as a loss occurs, the insured must perform the following duties :

1. Notify the insurance company immediately in writing.
2. Protect the property from further damage.
3. Separate the damaged personal property from the personal property that has not been damaged and put it in the best possible order.
4. Prepare a detailed inventory listing the property destroyed, property damaged and undamaged, and the quantity, cost, and actual cash value of the loss claimed.
5. Furnish the insurance company with a proof of loss within 60 days after loss, unless extended in writing by the company. This proof

of loss contains the following essential information based on knowledge and belief of the insured :

- (a) Time and origin of the fire.
- (b) Interest of the insured in the property, as well as the interest of anyone else in connection with the property.
- (c) The cash value of each item in the inventory, and the amount of loss or damage claimed.
- (d) Encumbrances on the property.
- (e) Any other insurance carried on the property.
- (f) Any change in title, use, occupation, location, possession, or exposures since the policy was issued.
- (g) By whom and for what purposes any building and parts of any building were used.

The policy also provides for the following requirements :

1. **EXAMINATION BY THE INSURANCE COMPANY.**—After a loss has occurred, the insured, under his policy, must exhibit the property to a representative of the insurance company, upon demand. In addition, if the insurance company so desires, the policyholder must submit to examination under oath and produce all books of account, bills, and invoices, or certified copies if originals are lost. If required, the insured must produce verified plans and specifications of any buildings, fixtures, or machinery destroyed or damaged, for which the company is liable.

2. **APPRAISAL.**—When a loss occurs, the insurance company sends an adjuster to determine the amount of the loss. The value of the loss in accordance with the terms of the policy is the cash value ascertained, with proper deductions for depreciation at the time of the loss. If the insured and the company fail to agree as to the actual cash value or the amount of loss, then, on the written demand of either, each selects a competent and disinterested appraiser and within 20 days of such demand notifies the other of the appraiser selected. The appraisers first select a competent and disinterested umpire. If they fail for 15 days to agree upon an umpire, then, on request of the insured or of the company, the umpire must be selected by a judge of a court of record in the state in which the property covered is located. The appraisers then appraise the loss, stating separately the actual cash value and loss to each item. If they fail to agree, their differences, only, are submitted to the umpire. An itemized award of any two, when filed with the company, determines the amount of actual cash value and loss. Each appraiser is paid by the party selecting him, and the expenses of appraisal and umpire are shared by the parties equally.

A competent appraiser is one who has sufficient knowledge concerning the property for which he is required to make an estimate of the value

and damage. An appraiser is disinterested if he has no pecuniary interest in the loss and is not related to any of the parties involved. An appraiser would not be barred because he has done work previously for the insured or the insurance carrier, or if he expects to do some work for them in the future.

3. **PAYMENT OF CLAIM.**—The insurance company is required to pay the loss within 60 days after the proof of loss has been received by the company and the loss has been ascertained, either by agreement between the insured and the company, expressed in writing, or by filing with the insurance company an award in accordance with the terms of the appraisal. After a loss occurs, the company's liability is reduced. For example, if the policy was written for \$10,000 and a \$1,000 loss occurred, the company's liability for a subsequent fire is \$9,000. After a loss, however, the company may restore the policy to the original amount on the payment of an additional premium for \$1,000 insurance for the balance of the time for which the policy will remain in force.

4. **SUIT.**—If the insurance company denies liability for any loss, the insured can sue within one year after the inception of the loss, provided that he has complied with all the requirements of the policy.

**Contribution Among Companies.**—An insured may obtain his insurance from a number of insurance companies. If the insured has more than one policy covering his property, the standard fire insurance policy provides that there shall be contribution among the various insurance carriers in proportion to the amount of the respective policies, whether collectible or not.

There is one difficulty in connection with contribution under fire insurance. An insured may have obtained various policies on his property, and the descriptions of the property, in these policies, may not be worded uniformly. For example, an insured may have covered his property as follows: *A Fire Insurance Company*, \$25,000 on merchandise; *B Fire Insurance Company*, \$35,000 on merchandise and machinery. A loss of \$1,000 occurred to the merchandise. The following problem arises: What shall be the contribution of each of the insurance companies in connection with its policy? Note that one policy covered the merchandise specifically, whereas the other covered merchandise and machinery.

The argument has been advanced that if the insured covered his merchandise in one insurance company, and covered his merchandise and machinery in another insurance company, to demand contribution based upon the entire amount of the policy in connection with the policy covering merchandise and machinery would be unfair in case of loss of the

merchandise. The insurance companies have attempted to make equitable rules to adjust such losses. Many of these rules have arisen as a result of judicial decisions. However, the general principle underlying these rules is that, regardless of the method of contribution required from each insurance company, if the insured carries sufficient insurance, he should be paid his full loss. For example, one method of settlement is first to require the company carrying the specific insurance to pay the loss on the property covered specifically, and if there is any unpaid balance, to require the company covering the property generally to pay it. There is but one way to avoid the situation, however, and that is to see that the property is described in exactly the same way in all policies. This subject will again be discussed on page 101.

**Basis of Valuation of Losses.**—The policy of fire insurance is strictly one of indemnity. No attempt whatsoever is made to pay the insured for any loss of profits or for any loss that he may have suffered outside of the cash value of the property damaged at the time of the fire. Since the policy provides only for the cash value, the original purchase price of any article is not the determining factor in settling the loss. The only question to be considered refers to the property value less depreciation at the time of loss.

If the insurance company does not wish to pay the cash value, it is entitled to replace the property with like kind and quality within a reasonable time. Notice of intention to replace the goods must be given to the insured within 30 days after receipt of proof of loss. The insurance company rarely exercises that privilege, however, as it is rather difficult to determine the meaning of the words "like kind and quality."

Sometimes the insured may have different plants in which manufacturing is conducted. For example, some parts may be manufactured in one building, then sent to another building for additional parts to be added, until finally the entire article is completed. A clause can be used providing that stock or supplies received from another department of the insured's business, and insured under the policy, will be considered as though purchased from another firm.

Property such as plumbing may have been destroyed, which, since installation, has become prohibited by ordinance. The insurance company is not required to pay for the costs of a fixture which will meet a new ordinance. All that the policy requires is that the value be determined in accordance with the cash value at the time of loss.

There are certain concerns which appraise properties, merchandise, and fixtures. Their appraisals are a valuable aid to the insured in determining whether he is carrying sufficient insurance. It may be advisable for the insured to obtain an independent appraisal of his property, as it

will materially assist him in determining the amount of insurance necessary to protect him adequately in case of a fire loss.

**Endorsement and Waiver.**—The policy form may not meet the various needs of different insureds. Therefore the policy provides that any provision or agreement which is not consistent with the provisions of the policy can be provided for in writing by an endorsement added to the policy. No provision may be waived, however, except such as by the terms of the policy is subject to change. For example, since the policy provides no coverage for articles such as money or securities, no valid endorsement can be added to the policy providing for the coverage of such articles. On the other hand, since the policy permits, an endorsement can be added in writing covering bullion or manuscripts.

Usually the only persons authorized to waive any provisions are the president, vice-president, secretary, or treasurer of the company. In spite of this provision, however, the courts have frequently held that where the agent knew in advance of the violation of any of the provisions in the policy it was the knowledge of the insurance company, and the insured was entitled to collect under his policy on the theory of waiver or estoppel.

**Cancellation of the Fire Insurance Policy.**—The policy provides that it may be terminated at the request of either the insured or the insurance company. The request by the insurance company may be due to the fact that it no longer desires to cover the type of property described in the policy, or that it regards the risk as a physical or moral hazard. If the insurance company desires to cancel the policy, it must give the insured five days' written notice in advance of the cancellation date. The insured is entitled to a prorata return of his premium without any amount being deducted for the broker's or agent's commission. For example, suppose the insured has a one-year policy upon which he has paid a premium of \$50, and the insurance company desires to cancel the policy after the lapse of 146 days. The insurance company would be required to return to the policyholder  $219/365 \times \$50$ , or \$30. It is not necessary for the company to pay immediately any unearned premium to the insured when the policy is canceled by the company. The company must notify the insured, however, that he is entitled to the premium for the balance of the period during which the policy would have continued in force, and that he can obtain the money on request.

If the insured desires to cancel his policy, he may do so by giving notice to the insurance company. The cancellation date is fixed as the date on which the policy is returned to the company or the agent. The insured is entitled to the unearned premium, but a deduction is made from the prorata amount. The reason for this charge is that once a policy is

issued certain expenses have been incurred, regardless of whether the policy is or is not kept for the entire period. If the insured desires to cancel his policy, he should pay a proportion of these charges. In order to meet this expense, special tables have been prepared which are used for computing the return of unearned premium. These tables, known as the "short-rate cancellation tables," are illustrated below.

To illustrate the use of this table, assume that an insured has a one-year policy which he canceled at the end of 106 days. The premium that

TABLE 18. SHORT RATE TABLE

Showing Per Cent of Premium Earned, 1 Day to 87 Days

Policy in Force	Term of Policy				
	1 Yr.	2 Yrs.	3 Yrs.	4 Yrs.	5 Yrs.
Days	Per Cent of Premium Earned				
1	5	2.9	2.	1.5	1.2
2	6	3.4	2.4	1.8	1.5
3-4	7	4.	2.8	2.2	1.7
5-6	8	4.6	3.2	2.5	2.
7-8	9	5.1	3.6	2.8	2.2
9-10	10	5.7	4.	3.1	2.5
11-12	11	6.3	4.4	3.4	2.7
13-14	12	6.9	4.8	3.7	3.
15-16	13	7.4	5.2	4.	3.2
17-18	14	8.	5.6	4.3	3.5
19-20	15	8.6	6.	4.6	3.7
21-22	16	9.1	6.4	4.9	4.
23-25	17	9.7	6.8	5.2	4.2
26-29	18	10.3	7.2	5.5	4.5
30-32	19	10.9	7.6	5.8	4.7
33-36	20	11.4	8.	6.2	5.
37-40	21	12.	8.4	6.5	5.2
41-43	22	12.6	8.8	6.8	5.5
44-47	23	13.1	9.2	7.1	5.7
48-51	24	13.7	9.6	7.4	6.
52-54	25	14.3	10.	7.7	6.2
55-58	26	14.9	10.4	8.	6.5
59-62	27	15.4	10.8	8.3	6.7
63-65	28	16.	11.2	8.6	7.
66-69	29	16.6	11.6	8.9	7.2
70-73	30	17.1	12.	9.2	7.5
74-76	31	17.7	12.4	9.5	7.7
77-80	32	18.3	12.8	9.8	8.
81-83	33	18.9	13.2	10.2	8.2
84-87	34	19.4	13.6	10.5	8.5

**TABLE 19. SHORT RATE TABLE**  
Showing Per Cent of Premium Earned, 88 Days to 200 Days

Policy in Force	Term of Policy				
	1 Yr.	2 Yrs.	3 Yrs.	4 Yrs.	5 Yrs.
Days	Per Cent of Premium Earned				
88-91	35	20.	14.	10.8	8.7
92-94	36	20.6	14.4	11.1	9.
95-98	37	21.1	14.8	11.4	9.2
99-102	38	21.7	15.2	11.7	9.5
103-105	39	22.3	15.6	12.	9.7
106-109	40	22.9	16.	12.3	10.
110-113	41	23.4	16.4	12.6	10.2
114-116	42	24.	16.8	12.9	10.5
117-120	43	24.6	17.2	13.2	10.7
121-124	44	25.1	17.6	13.5	11.
125-127	45	25.7	18.	13.8	11.2
128-131	46	26.3	18.4	14.2	11.5
132-135	47	26.9	18.8	14.5	11.7
136-138	48	27.4	19.2	14.8	12.
139-142	49	28.	19.6	15.1	12.2
143-146	50	28.6	20.	15.4	12.5
147-149	51	29.1	20.4	15.7	12.7
150-153	52	29.7	20.8	16.	13.
154-156	53	30.3	21.2	16.3	13.2
157-160	54	30.9	21.6	16.6	13.5
161-164	55	31.4	22.	16.9	13.7
165-167	56	32.	22.4	17.2	14.
168-171	57	32.6	22.8	17.6	14.2
172-175	58	33.1	23.2	17.8	14.5
176-178	59	33.7	23.6	18.2	14.7
179-182	60	34.3	24.	18.5	15.
183-187	61	34.9	24.4	18.8	15.2
188-191	62	35.4	24.8	19.1	15.5
192-196	63	36.	25.2	19.4	15.7
197-200	64	36.6	25.6	19.7	16.

he originally paid was \$30. In accordance with the short-rate table for one-year policies, the rate of charge is 40%. Therefore \$12 is retained by the insurance company and the balance of \$18 is returned as an unearned premium.

**Prorata Reduction of Amount of Insurance.**—During the course of business operations, an insured may find it necessary to request reduction in the amount of his insurance on merchandise. Since there is a reduction in the amount of insurance, the return premium would ordi-

narily be based upon short rates. To avoid this condition it is possible to permit reduction in the amount of insurance, for example, up to 50% of the maximum amount of insurance that has at any time applied under the policy for merchandise or stock at prorata rates.

**Mortgage Interests.**—If a loss is payable to a mortgagee, the company must give the mortgagee ten days' written notice of cancellation. If the insured fails to render a proof of loss, the mortgagee must render a proof of loss within 60 days after notice of failure of the insured to render the proof of loss. The mortgagee is then subject to the provisions as to appraisal, time of payment, and bringing suit. The company must pay the mortgagee, although there was a defense against the insured. The company is then subrogated to the extent of payment to the mortgagee's right in the collateral to the mortgage debt. The right of subrogation, however, cannot impair the mortgagee's right to sue on the mortgage. If the company desires, it may pay the mortgage debt and demand an assignment of the mortgage.

**The Binder.**—The issuance of a policy may be delayed, either because the rate has not been determined, or because a special endorsement has to be drawn up, or for many other reasons. In this event it is customary to issue a form called a "binder" which obligates the insurance company as though the policy had already been issued. The binder is also used in many other branches of insurance.

Provisions of the binder are: (1) the company assumes responsibility until the policy has been issued or until twelve o'clock noon of the next business day after the risk has been declined by notice to the insured or the representative who dealt with the insurance company on his behalf; (2) if the address of the mortgagee or his representative is given, notice must be sent to that address in so far as the mortgagee is concerned; (3) the liability of the company is usually for a specified period, such as 60 days from the date of commencement of liability; (4) if extension of time is endorsed on the binder, the company is liable for a similar specified period from the effective date of the extension.

**Temporary Automatic Cover.**—Whenever an insured frequently acquires property, he may purchase a policy which automatically insures property as acquired. Automatic protection continues for a definite period, such as 60 days after acquisition. Coverage terminates after the stated period unless specific insurance has been obtained for the newly acquired property. A temporary automatic coverage policy is useful for banks and other concerns which find it necessary to obtain protection for frequent purchases of property until additional insurance coverage is purchased.

**Valued Policy.**—In the standard fire insurance policy previously described, losses are determined upon the cash value of the property at the time of the fire. This form of policy is known as a nonvalued policy. The laws of several states permit a valued policy that determines the value in advance for total loss.

The advantages claimed for the valued policies are as follows: (1) The insured knows prior to any loss what he can obtain under his policy. (2) The insured, who may not be as skillful in determining losses as the insurance company, is not called on to help determine losses. (3) The insured does not have to concern himself with the fluctuating values of his property.

Adverse criticisms of this type of policy are these: (1) The theory of insurance, that the policy should be one of indemnity and not guarantee, is violated. (2) The insured is practically forced to carry 100% insurance on his property. (3) The moral hazard is increased by eliminating the principle of indemnity.

The use of the valued policy conflicts with the theory of limiting payments to the amount of the loss caused by a fire. However the theory is not practical when there is great difficulty in determining the amount of the loss. For example, a valued form should be used for fine arts as it is desirable for the insured and the insurance company to agree on the value of such objects in advance.

**Special Types of Policies.**—Most policies cover property as at a specific place. In many cases the specific insurance policy does not meet the needs of those desiring fire insurance. In order to meet special needs, the following variations of the specific policy are used: the schedule, blanket, floater, and automatic insurance policies.

1. **SCHEDULE POLICY.**—An insured may have very many properties. It is possible to obtain a separate policy for each location. If there are many properties to be insured, it might be cumbersome to handle numerous policies. Therefore insurance companies may issue a single policy listing the various properties of the insured. An amount is stated in the policy covering pro rata on each property as listed.

2. **BLANKET POLICY.**—The insured may have located, near one another, a number of plants in which he keeps goods. He may not desire to insure the goods in each building separately. To meet this situation the insurance companies provide a blanket policy covering the goods in the various buildings.

The fire insurance companies usually require a coinsurance clause, and in addition a prorata distribution clause. This latter clause provides that the amount of insurance shall attach to the stock in or on each building in

that proportion of the amount insured that the value of the property covered by the policy in or on each building shall bear to the value of all the property described in the policy. The meaning of coinsurance and use of the prorata distribution clause will be discussed in this chapter.

3. **FLOATER POLICY.**—Many individuals and manufacturing concerns have occasion to send their property from one point to another. For example, in the process of manufacturing an article, the raw commodities may be worked up in one factory, from which the partially completed goods must be sent to a second, and finally to a third to be completed. During the process of manufacture the property is at various points. Under the floater policy the insurance company agrees to cover all property of the insured of certain kind or kinds, within certain geographical limits, with a specified limit of amount at any one location.

4. **AUTOMATIC COVERAGE POLICY.**—Where changes in stock at old or new locations are frequent and unpredictable, some merchants may obtain an automatic coverage policy. Chain-store systems, for example, find it necessary to increase and decrease stocks and to add and abandon locations in their effort to attain maximum net profit. Automatic coverage avoids excessive and inadequate insurance by insuring all property acquired and by adjusting the premium to values reported periodically.

**Endorsements and Forms.**—The standard fire insurance policy cannot meet all contingencies, and the insured may require a wider coverage than that furnished by it. On the other hand, the insurance company may desire further to limit its liability. To meet these contingencies a number of endorsements and forms have been developed, either increasing or decreasing the liability of the insurance company. Various bureaus located in the United States issue rules regulating endorsements and forms used in connection with fire insurance. Reference will be made to the important provisions, forms, and endorsements as permitted or required by some bureaus. Many of these provisions, forms, and endorsements are used in other lines of insurance.

Consideration will be given to these endorsements and forms :

Mortgagee	Motion Picture Permission
Coinsurance	Extended Coverage
Prorata Distribution	Vandalism and Malicious
Building Form	Mischief
Stock and Fixture Form	Burglary and Robbery
Dwelling Form	Dwelling "All Risks"
Household Furniture Form	Additional Extended Coverage
Dwelling and Contents Form	Unoccupied Building
Deductible	Clear Space
Inherent Explosion	Divisible Contract
Charging for Fire Protection	Inventory and Iron Safe

Removal of Goods	Unearned Premium
Automatic Sprinkler	Rental
Standpipe Equipment	Leasehold
Watchman and Clock	Profits and Commissions
Builder's Risk	Market Value
Depreciation	Selling Price
Increased Cost of Construction	Business Interruption or Use and Oc- cupancy
Demolition	Contingent Business Interruption
Errors and Omissions	Extra Expense
Customs Duty	Tuition Fees
Limited Liability	Multiple Location
Legal Liability	
Consequential Loss and Damage	

**Mortgagee Clause.**—Mention has already been made of mortgagee interest in the standard policy. When a mortgage is employed to finance the purchase of a building, the mortgagor is required to protect the mortgage against fire loss. The usual practice is for the owner of the building to obtain a policy in his own name, pay the premium, give the policy to the mortgagee, and retain the certificate referring to the policies. The insurance company will add an endorsement on the policy, known as the "mortgage clause." This clause has the following general features:

1. The loss is payable to the mortgagee to the extent of his interest.
2. The mortgagee is not responsible for the actions of the mortgagor in violation of the policy and not within the knowledge of the mortgagee.
3. If the mortgagor does not pay the premium, the mortgagee may do so.
4. The policy cannot be canceled unless the mortgagee is given ten days' notice.

Two forms of the mortgagee clause are available, the full-contribution mortgagee clause and noncontribution mortgagee clause. These two forms have similar provisions, except that the full-contribution mortgagee clause provides that the insurance company is only liable for its proportion of loss with any other insurance carried on the property. Under the noncontribution clause the mortgagee is not concerned with any other insurance carried on the property, as contribution is not required with any other insurance on the property.

**Coinurance Clause.**—One of the problems that the insurance companies have had to meet is that of making the insured purchase an adequate amount of insurance. The problem exists in fire insurance and in many other lines. The insured knows that the great majority of losses are partial losses, and the general tendency is to underinsure. In order to distribute equitably the cost of insurance among individual members of the community and individual owners of property, the fire insurance

companies have attached to their policy a clause known as the "coinsurance" clause. According to one clause, rates are made on the assumption that the policyholder will insure 80% of the value of his property. For example, suppose a rate of 30 cents per \$100 of insurance with the 80% clause is quoted on a building valued at \$50,000. This means that the rate has been determined upon the assumption that the insured will cover his building against loss by fire up to 80% of the value of the building, or \$40,000. In order to give the insurance company an adequate premium, the insured must pay to the insurance company an amount computed for \$40,000 at 30 cents per \$100, that is, \$120. Suppose that this same owner were permitted to purchase only \$20,000 of insurance at the same rate, without the 80% clause. He would then pay a premium of \$60. If others were to follow the same practice, the insurance companies would soon find themselves in a position where they could not meet their claims, since the rates were based on the assumption that the insured would cover 80% of the value of the building.

In an effort to secure equitable distribution of fire insurance and a fair premium contribution from each property owner, the various forms of coinsurance clauses now in use were developed. Under the coinsurance clause, if the amount of insurance carried is not equal to a certain percentage of the value of the property at the time of loss, the owner of the property becomes a coinsurer with the insurance company. The following examples explain the theory of coinsurance.

TABLE 20. ADJUSTMENT

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Cash Value of Property	Insurance Carried	Insurance Required to Avoid Coinsurance Under 80% Clause (80% of Col. 1)	Per Cent of Any Claim of Any Company Will Pay (Up to Face of Policy) (2 ÷ 3)	Loss Due to Fire	Insurance Company Will Pay (4 × 5, but not more than 2)	Balance of Loss, Owner Bears Himself
\$ 50,000	\$10,000	\$40,000	25%	\$ 5,000	\$ 1,250	\$ 3,750
50,000	20,000	40,000	50%	5,000	2,500	2,500
50,000	40,000	40,000	100%	5,000	5,000	none
100,000	20,000	80,000	25%	40,000	10,000	30,000
100,000	20,000	80,000	25%	80,000	20,000	60,000
100,000	20,000	80,000	25%	90,000	20,000	70,000

If a small loss occurs, the expense necessary to prepare an inventory to determine the exact amount of insurance that should have been carried might be unwarranted. If the insured had a stock of \$50,000 and a \$500 loss occurred, it would be unfair to require the insured to prepare an

inventory to determine the value of the stock on hand at the time the fire occurred, in order to ascertain whether the insured complied with the coinsurance clause. Therefore the coinsurance clause may provide that if the loss is less than a stipulated percentage of the insurance, for example 5%, and if it totals less than a stipulated amount, for example, \$10,000, it is not necessary to prepare a special inventory or appraisal of the property which has not been damaged.

**Prorata Distribution Clause.**—A manufacturer may require the use of a group of buildings. For example, he may produce merchandise in three adjoining buildings which, for illustration, will be designated as buildings No. 1, No. 2, and No. 3. The value of raw and finished stock at the time insurance is required is respectively as follows: Building No. 1—\$100,000, Building No. 2—\$60,000, and Building No. 3—\$40,000. Subsequently these values may change in the various buildings. It is possible that at the time of loss the entire value may be in one building. As explained previously, in order to protect the insured under such circumstances, a policy can be issued covering the property in the three buildings but subject to the prorata distribution clause. This clause provides, in effect, that in case of loss the policy attaches in each building, division, or location in such proportion as the value in each building, division, or location bears to the total value of the property insured. The policy is generally subject to the 90% coinsurance clause.

In order to explain the effect of the prorata distribution clause with the 90% coinsurance clause, assume that in the above illustration insurance was purchased for \$180,000. Also assume that a loss occurred in Building No. 1 amounting to \$36,000, and at the time of the loss the stock in each building was as follows:

Building No. 1 .....	\$ 80,000
Building No. 2 .....	100,000
Building No. 3 .....	60,000
	\$240,000
Total .....	\$240,000

The amount of insurance available for the merchandise in each building will be distributed as follows:

Building No. 1	$\frac{\$80,000}{\$240,000} \times \$180,000 = \$60,000$
Building No. 2	$\frac{\$100,000}{\$240,000} \times \$180,000 = \$75,000$
Building No. 3	$\frac{\$60,000}{\$240,000} \times \$180,000 = \$45,000$
	Total \$180,000

Since the merchandise of Building No. 1 amounted to \$80,000, the insurance required would be  $\$80,000 \times 90\%$  or \$72,000. As the insurance available for Building No. 1 amounted to \$60,000, the liability of the company for the loss would be  $\frac{\$60,000}{\$72,000} \times \$36,000$ , which equals \$30,000.

**Nonconcurrent Insurance.**—The owner of property may carry insurance in various companies on his properties. After loss he may discover that the coverage of the various policies or the description of the property is not exactly the same in each policy. For example, he may find that one policy covers stock, another policy covers machinery, and a third policy covers stock and machinery. In addition, the policies may have varying rates of coinsurance. The following is an illustration:

Company	Description of Property	Replacement Value	Insurance	Coinsurance	Loss
A	Stock	\$ 60,000	\$24,000	80%	\$12,000
B	Machinery	40,000	12,000	80%	33,600
C	Stock and Machinery	100,000	14,000	100%	45,600

In view of the fact that part of the loss for stock and part of the loss for machinery is included in the policy for *Company C*, and the policies are nonconcurrent, special rules have been developed in order to determine the amount of loss to be charged to each insurance company. One of these rules is known as the Limit of Liability Rule. Under this rule each company is liable for the smallest of the following three amounts:

1. The amount of insurance.
2. The amount of loss.
3. The arithmetical operation of the coinsurance clause.

Therefore, liability will be distributed as follows:

<i>Company A</i>	
Amount of Insurance . . . . .	\$24,000
Amount of Loss . . . . .	12,000
Coinsurance Computation . . . . .	6,000
Company A pays . . . . .	\$ 6,000
<i>Company B</i>	
Amount of Insurance . . . . .	\$12,000
Amount of Loss . . . . .	33,600
Coinsurance . . . . .	12,600
Company B pays . . . . .	\$12,000
<i>Company C</i>	
Amount of Insurance . . . . .	\$14,000
Amount of Loss . . . . .	45,600
Coinsurance . . . . .	6,384
Company C pays . . . . .	\$ 6,384
<b>Total payment by the insurance companies . . . . .</b>	<b>\$24,384</b>

**Forms.**—The Standard Fire Insurance Policy provides that changes can be made to meet the needs of various insureds. For this purpose special forms have been developed. Some forms that are used are (a) the Building Form, (b) the Stock and Fixture Form, (c) the Dwelling Form, (d) the Household Furniture Form, (e) Dwelling and Contents Form.

**BUILDING FORM.**—Clauses used in this form are the following :

1. *Sole or unconditional ownership.* The owner of the building may not have full ownership on some of the building equipment. Therefore the form provides that if the insured's interest is other than sole or unconditional ownership, he is nevertheless insured up to the full value irrespective of the insurable interest in the property.
2. *Foundations.* In view of the fact that foundations are generally not damaged by fire, coverage may be excluded for the cost of excavations or brick, stone, or concrete foundations, piers or other supports which are below the under surface of the lowest basement floor, or, where there is no basement, which are below the surface of the ground.
3. *Fees payable after loss.* After a loss the insured may have to hire architects and consulting engineers to prepare new plans. The form provides for the payment of fees for supervision and architects or consulting engineers employed as a result of the loss to the property.
4. *Improvements or betterments.* A tenant may have made some improvement or betterments, and the question may arise whether the landlord or the tenant owns the improvements or betterments. The form therefore provides for the purpose of settlement of loss that the insured will be considered the full and unconditional owner of the improvements, any contract or lease the insured may have made to the contrary notwithstanding.
5. *Privileges granted.* In the course of time tenants in the building may change and their operations may vary. Sometimes the building may be unoccupied or it may be necessary to house some automobiles. The form, therefore, provides permission (a) for present and other occupancies not more hazardous, and to do such work and to keep and use such materials as are usual in such occupancies, (b) for existing communications, (c) for vacancy or unoccupancy without limit of time, and (d) for entry and housing of automobiles.
6. *Removal of debris.* After a loss the insured must pay for the cost of removal of debris. The form therefore provides that the insurance will cover all expenses incurred in the removal of all debris which may be occasioned by the loss. Cost of removal of debris will not be considered in the determination of actual cash value when applying any average clause attached to the policy.
7. *Landlord's furnishings.* The term "building" does not include various landlord's furnishings which are necessary in connection with the

operation of the building. Coverage is therefore specifically provided in the form for landlord's furnishings if used for the building, and not for the landlord as a tenant or occupant and in actual use solely for the maintenance of the building. Articles covered include hose and other fire extinguishing apparatus; floor coverings and furnishings of corridors and stairs; refrigerators and refrigerating equipment; gas and electric cooking equipment; porch, lawn, and roof furniture anywhere on the premises; window shades, awnings, and screens belonging to the building, attached to or stored in the building; fuel contained and intended for use in the building; employees' uniforms and janitors' supplies.

8. *Alterations and repairs.* At various times of operation the landlord may have to make alterations and repairs. Materials and supplies will be used on the job during the work. To avoid any defense by the company for increase of hazard, the form provides coverage for all materials and supplies in the building or adjacent to the building, and also for the alterations or additions. However, this clause does not modify the terms of the automatic sprinkler clause if attached to the policy. The automatic sprinkler clause is discussed on page 113.
9. *Electric appliances.* Electric appliances may be damaged by a short circuit. The insured may claim that loss is due to fire. To meet this situation the electric exemption clause provides that where electric appliances or devices of any kind, including wiring, are covered by the policy, the company is not liable for any electrical injury or disturbances to the electric appliances or devices or wiring from artificial causes, unless fire ensues, and if fire does ensue, the company is liable only for the proportion of loss caused by the ensuing fire.
10. *Reinstatement after loss.* After a loss has occurred, the insured does not have to pay an additional premium in order to reinstate the policy to the original amount. The reduction resulting from loss will be automatically reinstated, to the extent of, and concurrently with, the repair or replacement of the property damaged or destroyed.
11. *No control.* The insured may rent his building to various tenants who are engaged in different types of work. One of the tenants may engage in operations which may be in violation of a specific provision of the policy or endorsement. It would be unfair, however, to charge the landlord with the violation if he had no knowledge of it. To protect the landlord, the "no control" clause provides that the policy will not be affected by the failure of the insured to comply with any of the warranties or conditions endorsed on the policy in any portion of the premises over which the insured has no control.
12. *Liberalization clause.* If, during the period that a policy is in force, there are any revisions or changes in rules or regulations affecting the policy or any endorsements added to it, which changes broaden or extend the coverage without any additional premium charge, such

extended or broadened insurance will inure to the benefit of the insured automatically.

*Plan, Diagram, or Drawing.*—Instead of describing the various buildings insured, reference can be made in the policy form to a schedule, plan, diagram, drawing, or similar supplementary paper. Usually these plans must be filed with the bureau to which the company belongs and the place of filing must be stated in the Building Form.

**STOCK AND FIXTURE FORM.**—Various clauses of this form are similar to those of the Building Form. Special clauses which apply to the Stock and Fixture Form are as follows :

1. *Conditional bill of sale.* Coverage is granted for property purchased on the installment plan or on a conditional bill of sale. The property is covered for the full value, irrespective of the insured's interest.
2. *Other specific insurance.* There is no coverage for any loss of property specifically insured, unless the amount of the losses exceeds the amount collectible from the specific insurance. In that event, the excess only is covered under the Stock and Fixture Form.
3. *Transit clause.* There is a possibility that during the course of operations it may be necessary to transport the goods through the building. In that event the property is covered, whether on the floor or floors occupied by the insured, as described in the policy, or temporarily on lower floors in transit thereto or therefrom within the same building.
4. *Extension of coverage outside of buildings.* Goods may be destroyed prior to being placed in the building. For example, some goods may be on the sidewalk outside of the building. Coverage is therefore provided for property (a) while in cars or switches on side tracks when the cars are on the insured's premises or within 100 feet of the buildings described in the policy; (b) in the open on the premises; (c) on platforms in contact with the buildings described in the policy; (d) on sidewalks, streets, alleys, or attached platforms when within 50 feet of the insured's buildings.
5. *Brand and label clause.* After branded goods have been damaged, the original manufacturer of the merchandise may not desire the goods to be sold with the label of the manufacturer. Under the brand and label clause, the manufacturer can remove the labels or markings at his own expense or the word "salvage" can be stamped on the merchandise or containers of the reconditioned goods, provided that the removal of the labels or the stamping of the merchandise does not cause physical damage to the merchandise. An additional charge is made for the use of this clause in the form.
6. *Trust and commission clause.* In addition to covering the property owned by the insured, the form also provides for coverage on property held in trust or on commission by the insured. The clause simi-

larly covers property on consignment with the insured, property left with the insured for repair or storage, and goods sold but not yet removed from the insured's premises.

**DWELLING FORM.**—This form contains many clauses which are found in the Building Form. Special clauses in this form are :

1. *Privileges granted.* Permission is granted to house not exceeding six private family automobiles, to keep roomers or boarders, provided there are not more than ten sleeping rooms.
2. *Furnishings.* The form states that storm doors, storm windows, screens, porch and lawn furniture are covered, wherever they may be on the premises.

**HOUSEHOLD FURNITURE FORM.**—Various clauses of this form also follow those of the Building Form. Special clauses which apply specifically to this form are as follows :

1. *Outside coverage.* The insured may send his clothing to a laundry. In case of fire at the laundry, he would not have protection under the policy. To avoid this contingency, the property is covered while temporarily removed from the dwelling or dwelling sections of other buildings to any other location. The form provides for coverage of household and personal property belonging to the insured or any member of the insured's family, except rowboats, canoes, animals and pets, equipment of aircraft, motor vehicles, and boats of all types. Coverage is granted up to 10% of the amount of insurance or \$1,000, whichever is less. The amount of insurance applies as excess after any other insurance which covers against the peril causing the damage has been exhausted.
2. *Privileges granted.* This clause is similar to the clause used in the Dwelling Form.
3. *Installation plan and transit clause.* These clauses are same as the clauses used in the Stock and Fixture Form.
4. *Additions.* When additions are made to the building, the policy covers the contents contained in the additions.

**DWELLING AND CONTENTS FORM.**—By the use of one policy to cover the dwelling, and a second policy to cover the household and personal property, a private individual can cover his real and personal property. By the use of the Dwelling and Contents Form, only one policy is necessary. Provisions of this form include the following :

1. Coverage on the dwelling occupied as a residence, including building equipment and fixtures and outdoor equipment pertaining to the service of the premises for the property of the owner of the dwelling while located on the premises.
2. The insured can apply up to 10% of the amount carried on the

dwelling to cover rental value, but not exceeding  $\frac{1}{12}$  of the 10% for each month that the dwelling or parts thereof are untenable. This clause does not apply to property used for mercantile, manufacturing, or farming purposes.

3. Coverage includes household and personal property usual or incidental to the occupancy of the premises as a dwelling. Coverage also includes household and personal property purchased under an installment plan and usual or incidental to a dwelling, belonging to the insured or for which the insured may be liable, or, at the option of the insured, belonging to a member of the family of the insured or to a servant, while contained in the dwelling or appurtenant private structures or while on the premises. Coverage does not apply to aircraft, motor vehicles, and boats other than rowboats and canoes.
4. In connection with the home there may be trees, shrubs, or plants on the outside of the building. Coverage can be provided on trees, shrubs or plants, except those grown for commercial purposes, at the premises, but the company will not be liable for more than a stipulated sum, as, for example, \$100 on any one tree, \$10 on any one shrub, or \$1 on any one plant.
5. Similar to the other forms, there is an automatic reinstatement for the amount of insurance involved in a loss payment.
6. As in other forms, the electrical appliance clause provides that if electrical appliances or devices (including wiring) are covered, the company will not be liable for any electrical injury or disturbance to the electrical appliances or devices (including wiring) caused by electrical currents artificially generated, unless fire ensues, and if fire does ensue, the company will be liable only for its proportion of loss caused by such ensuing fire.
7. If explosion occurs due to any hazard inherent in the property, the policy covers direct loss to the property covered caused by explosion occurring in the dwelling or appurtenant private structures or in any structure containing property covered from hazards inherent therein. However, the company is not liable for loss by explosion originating within steam boilers, steam pipes, steam turbines, steam engines, or flywheels.
8. As in other forms, permission is granted (a) for such use of the premises as is usual or incidental to the occupancy; (b) for the premises to be vacant or unoccupied without limit of time; and (c) to make alterations, additions, and repairs and to complete structures in course of construction, and (so far as it applies to building) the policy covers all lumber and materials on the premises or adjacent to the premises.

**Deductible Clause.**—An insured with a large amount of property at risk may believe that he can afford to be a self-insurer for \$5,000, \$10,000, or any other amount for each loss. To meet the needs of such

persons there has been developed a deductible form of fire insurance. The premium for such insurance is reduced, depending on the amount of the deductible. The minimum deductible available is \$5,000. The insured warrants that the deductible will not be insured with another company.

It is a condition of the policy that any coinsurance, contribution, average or distribution clause, which may be a part of the policy, applies to the full value of the property insured, without reduction for the amount of the deductible that is specified, and that the deductible applies after any penalty has been assessed by the application of such clause.

Each claim for loss or damage (separately occurring) is adjusted separately, and from each adjusted claim the specified amount is deducted. In the event of any recovery or salvage on a loss, such recovery or salvage accrues entirely to the benefit of the insurance company until the sum paid by the insurance company has been recovered.

**Inherent Explosion Clause.**—As stated previously, the coverage of the policy excludes loss from explosion in the absence of fire. The policy, however, may be endorsed to cover explosions resulting from the hazard inherent to the occupancy, as illustrated by chemical risks.

The inherent explosion clause covers loss caused by explosion occurring in any structure which constitutes a part of the plant of which the property insured is a portion, or occurring in any structure containing property insured. The explosion must result from the hazards inherent in the business as conducted on the premises.

Loss by explosion includes direct loss resulting from the explosion of accumulated gases or unconsumed fuel within the firebox (or the combustion chamber) of any fired vessel or within the flues or passages which conduct the gases of combustion therefrom.

The company will not be liable for loss occasioned by or incident to the explosion, collapse, or rupture of steam or hot water boilers, water heaters, steam pipes or their connections, internal combustion engines, steam engines, flywheels, pulleys, abrasive wheels, or moving or rotating parts of machines unless fire ensues and then for loss by fire only.

If there is insurance other than fire insurance covering any hazard assumed under the inherent explosion clause, in the event of loss covered by the inherent explosion clause, the insurance under the policy applies pro rata to each separate property unit with all the other insurance covering the unit, in the proportion that the value of each individual unit bears to the total value of all property covered by the policy.

**Charging for Fire Protection.**—Property may be beyond the fire limits. In case of fire the owner may find it necessary to call the fire

department in an adjoining town. It is customary, in such an event, for the municipality or township to charge the property owner for this service. An endorsement may be added to the policy, providing that the insurance company will assume liability for any fire department charges which the insured may have to pay.

**Motion Picture Machine Permission.**—The use of motion picture machines in schools and residences involves special hazards. By endorsement, permission is granted for the use of a motion picture machine with noninflammable safety film (acetate base) in schools and residences. The endorsement is subject to the following provisions :

1. Incandescent electric light only can be used in the machine.
2. The films used must be noninflammable safety films.
3. The permission granted is operative only when not in violation of any law, statute, or municipal restriction.

**Extended Coverage.**—The standard fire insurance policy may be endorsed to cover losses due to windstorm, hail, explosion, riot, riot attending a strike, aircraft, vehicles, and smoke. This extended coverage policy is also known as the “supplemental contract.”

**Windstorm and Hail Coverage—Limitations and Exclusions.**—The extended coverage endorsement does not cover for any loss or damage caused by the following :

1. By frost or cold weather.
2. By ice (other than hail), snowstorm, tidal wave, high water or overflow, whether driven by wind or not.
3. In addition, the company is not liable for loss to the interior of the building or the insured property in the building caused (a) by rain, snow, sand, or dust, whether driven by wind or not, unless the building insured or containing the property insured first sustains an actual loss to the roof or walls by the direct force of wind or hail, and then the company is liable for loss to the interior of the building or the insured property therein as may be caused by rain, snow, sand, or dust entering the building through openings in the roof or walls made by the direct action of wind or hail or (b) by water from sprinkler equipment or other piping, unless such equipment or piping is damaged as a direct result of wind or hail.

Unless liability is assumed by endorsement, the company is not liable for damage to the following property : (a) grain, hay, straw, or other crops outside of buildings ; (b) windmills, wind pumps, or their towers ; (c) crop silos (or their contents) ; (d) buildings (or their contents) in process of construction or reconstruction, unless entirely enclosed and under roof with all outside doors and windows permanently in place.

Any loss caused by windstorm or hailstorm may be subjected to a \$50 deductible clause by endorsement.

**Explosion Coverage—Limitations and Exclusions.**—Although the endorsement assumes liability for explosion, there is no waiver of any provision of the policy prohibiting the keeping, using, or allowing on the premises of any prohibited articles or materials, or keeping, using, or allowing articles or materials in quantities prohibited by the fire insurance policy.

Loss by explosion includes direct loss resulting from the explosion of accumulated gases or unconsumed fuel within the firebox (or combustion chamber) of any fired vessel or within the flues or passages which conduct the gases of combustion therefrom.

The company is not responsible for loss by explosion, rupture, or bursting of steam boilers, steam pipes, steam turbines, steam engines, flywheels owned, operated, or controlled by the insured or located in the building described in the policy.

In view of the fact that the exclusion is limited to the explosion of certain specified objects, such as steam boilers, coverage for loss due to the explosion of other objects which are not mentioned but which use steam, such as a radiator, would be covered.

Usually no fire coverage is provided for foundations. However, an explosion may damage foundations. Therefore consideration should be given to coverage of that property if the extended coverage endorsement is used.

**Riot and Riot Attending a Strike and Civil Commotion Coverage—Limitation and Exclusions.**—Riot coverage includes direct loss or damage from pillage and looting when occurring during and at the immediate place of riot, civil commotion, or riot attending a strike. Loss or damage by acts of striking employees of the owner or tenants of the buildings while occupied by the striking employees is also covered.

The company is not liable for loss resulting from damage to or destruction of the property owing to change in temperature or interruption of operations resulting from riot or strike or occupancy by striking employees or civil commotion, whether or not such loss, due to change in temperature or interruption of operations, is covered by the policy as to other perils.

Under the endorsement the company is liable only if there has been physical damage caused by riot. The coverage is therefore not strike insurance but only covers if damage is caused by strikers.

**Aircraft and Vehicle Coverage—Limitations and Exclusions.**—Loss or damage by aircraft includes direct loss and damage by objects

falling therefrom. By the term "vehicle" is meant vehicles running on land or tracks but not aircraft.

The company is not liable for loss (a) by any vehicle owned or operated by the insured or by any tenant of the premises; (b) to aircraft or vehicles, including contents, other than stocks of aircraft or vehicles in process of manufacture or for sale; (c) by any vehicle to fences, driveways, sidewalks, or lawns. Damage caused by vehicles must result from the actual physical contact of the vehicle with the insured property.

**Smoke—Limitations and Conditions.**—The term "smoke" means only smoke due to a sudden, unusual, and faulty operation of any heating or cooking unit, only when such unit is connected to a chimney by a smoke pipe, and while in or on the insured's premises, excluding, however, smoke from fireplaces or industrial apparatus. The company is therefore liable for smoke resulting from the use of any kind of fuel, and the coverage is not restricted to the use of oil burners.

**Vandalism and Malicious Mischief Endorsement.**—The supplemental contract has been widened by the vandalism and malicious mischief endorsement. This endorsement provides that the policy includes direct loss or damage to the insured property from vandalism and malicious mischief. The intent of the endorsement is to cover only direct loss or damage to the property occasioned by wilful or malicious acts causing physical injury to or destruction of the property. The company is not liable for any loss

- (a) to glass (other than glass building blocks) constituting a part of the building;
- (b) from pilferage, theft, burglary, or larceny;
- (c) by explosion, rupture, or bursting of steam boilers, steam pipes, steam turbines, steam engines, flywheels owned, operated, or controlled by the insured or located in the building described in the policy;
- (d) from depreciation, delay, deterioration, change in temperature or humidity, loss of market, or from any other consequential or indirect loss of any kind;
- (e) caused, directly or indirectly, by enemy attack by armed forces, including action taken by military, naval, or air forces in resisting an actual or an immediately impending enemy attack; by invasion; by insurrection; by rebellion; by revolution; by civil war; or by usurped power.

The permitted period of vacancy, as provided by the fire policy, applies to liability under this endorsement except when such permitted period is in excess of 30 days. In that case the company is not liable for the loss under the endorsement occurring while the building is vacant beyond a

period of 30 days, whether or not such period commenced prior to the inception date of the endorsement. However, this period may be increased by endorsement.

**Burglary and Robbery Endorsement.**—A fire insurance policy covering household furniture may be endorsed to cover against loss or damage caused by burglary from the insured's residence, or by robbery anywhere, from the insured or any member of his family living with him.

The endorsement provides limited coverage which excludes theft or mysterious disappearance. Furthermore, the endorsement does not provide any coverage for loss of property of others which may be in the custody of the insured, or the property of any guest or servant of the insured. Burglary is defined as (a) the felonious abstraction of the insured property from within the premises by any person making felonious entry therein by force or violence of which there are visible marks by tools or explosives at the place of entry, or (b) vandalism or malicious mischief committed by the person after making the entry. Robbery means the felonious or forcible taking of the property (a) by violence inflicted upon the insured or (b) by putting the insured in fear of violence.

The burglary and robbery endorsement covers all the personal property of the insured and of his family living with him, including clothing, furniture, sporting goods, photographic equipment, silverware, and other personal property up to the amount of coverage stated in the endorsement, subject to a limit for each loss of \$100 on jewelry, watches, furs and articles containing fur which represents their principal value, and \$50 on money and securities.

Excluded property includes (1) aircraft, vehicles or their equipment, (2) samples, or (3) animals or birds. The amount of insurance granted under the endorsement is not reduced by any loss paid to the insured.

**Dwelling "All Risk" Endorsement.**—An analysis of the coverages described in this chapter will indicate that under certain circumstances the insured may not have coverage for some contingencies. By the use of the dwelling "all risk" endorsement, the coverage for private dwellings has been extended to include direct loss resulting from physical damage to the property by any cause whatsoever except as stated below:

The company is not liable for the cost of repairs and replacements directly attributable to:

1. Faulty design.
2. Defective work and material.

In addition there is no liability for loss caused by:

- (a) depreciation, obsolescence, gradual deterioration, wear and tear,
- (b) termites and other insects, fermented dry rock, fungus,

- (c) subsoil water
- (d) cracks in plaster, settling, sagging,
- (e) breaking or breakdown of machinery and appliances,
- (f) war as explained on page 88.

In order to avoid payment of small claims, the endorsement is issued subject to a deductible of \$50 from each loss. This limitation does not apply to any losses caused by fire or the perils of extended coverage.

**Additional Extended Coverage Endorsement.**—In order to provide wider coverage than the extended coverage endorsement, an additional endorsement called the “Additional Extended Coverage Endorsement” has been introduced, which is similar to the “All Risk” Endorsement. This endorsement is available for private dwelling property, that is, occupied by not more than four families.

The provisions of this endorsement are as follows: The provisions of the fire insurance policy and the extended coverage endorsement are extended to include direct loss to the property by (1) water damage from plumbing and heating systems, (2) rupture or bursting of steam or hot-water heating systems, (3) vandalism and malicious mischief, (4) vehicles owned or operated by the insured or by a tenant of the premises, (5) glass breakage, (6) ice, snow, and freezing, (7) fall of trees, and (8) collapse.

The company is not liable under the endorsement for loss caused directly or indirectly by (a) earthquake, (b) backing up of sewers or drains, or (c) by flood, inundation waves, tide or tidal wave, high water, or overflow of streams or bodies of water, whether driven by wind or not.

Loss by any one occurrence to the extent of \$50 is not recoverable, and the company is liable for loss only in excess of that amount.

Loss by water damage means only physical injury to or destruction of the property resulting from accidental discharge, leakage, or overflow of water or steam from within a plumbing system, plumbing tank, or standpipe, heating system or domestic appliance (including refrigerators and air-conditioning systems). The company is not liable for damage to the systems or appliances unless there is actual damage by any peril insured against other than water damage. In addition the company is not liable for damage to the building or contents caused by or resulting from the freezing of a plumbing or heating system if the building has been unoccupied or unheated for a period exceeding 72 hours immediately preceding the time of loss, unless the water supply was shut off and the plumbing and heating system was drained during that period.

Loss by rupture or bursting of steam or hot-water systems means only physical injury to or destruction of the property resulting from the

sudden and accidental tearing asunder, cracking, burning, or bulging of a steam or hot-water heating system, or any part of the system, in the building, caused by pressure of water (not ice) or steam in the system, or by a deficiency of water or steam in the system.

Loss by vandalism and malicious mischief means only willful or malicious physical injury to or destruction of the property. The company is not liable for any loss by pilferage, theft, burglary, or larceny, except loss by willful or malicious physical injury to or destruction of a building. The company is not liable for loss to the building occurring while the building is vacant beyond a period of 30 days, whether or not the period commenced prior to the inception date of the endorsement; but a building in process of construction is not deemed to be vacant.

Loss by vehicles owned or operated by the insured or by any tenant of the premises means only physical injury to or destruction of the property resulting from actual physical contact of the vehicle with property covered, or with the building containing the property covered. The company is not liable, however, for loss by any vehicle to fences, drive-ways, walks, or lawns.

Loss by glass breakage means only the breakage of glass constituting a part of the building covered, including glass in storm doors and storm windows. The company is not liable under the endorsement for any damage to the buildings occurring while the building is vacant beyond a period of 30 days, whether or not the period commenced prior to the inception date of the endorsement; but a building in process of construction is not deemed to be vacant.

Loss by ice, snow, and freezing means only physical injury to or destruction of the property resulting from (a) the collapse of a building or part caused by the weight of ice, snow, sleet, or hail on the building; (b) the fall on or against the building of objects falling because of ice, snow, sleet, or hail; (c) damage to plumbing and heating systems and domestic appliances or air conditioning systems caused by freezing, provided the building had been occupied and heated within a period of 72 hours immediately preceding the time of loss, or the water supply shut off and the plumbing and heating systems, domestic appliances, or air-conditioning systems drained.

Loss by fall of trees means only physical injury to or destruction of the property caused by the fall of trees or their limbs from whatever cause arising, except the intentional felling, topping, or trimming of trees on the premises or a peril insured against under the extended coverage endorsement.

Loss by collapse means only physical injury to or destruction of the property resulting from the collapse of floors, walls, or roofs of the build-

ing, but not collapse caused by or resulting from subsidence or a peril insured against under the extended coverage endorsement.

**Unoccupied Building.**—If a building is insured as unoccupied, an endorsement is attached which provides that the building will remain unoccupied and that when occupied the company will be notified and the rate will then be adjusted.

**Clear Space Clause.**—At times the policy may require a clear space clause. Under this clause the insured must keep a clear space of not less than a specified number of feet between the property insured and another manufacturing establishment, and the space cannot be used for any purpose except for transportation purposes.

For lumber yards the clear space clause requires a clear space of a specified number of feet between the property insured and any other woodworking or manufacturing establishment, dry kiln, slab pit, or refuse burner. The clear space cannot be used for the handling or piling of lumber for any purpose except for tramways upon which lumber is not piled. However, the insured is permitted to load or unload within the clear space, or to transport lumber or timber products across the space. There is no coverage for lumber or timber products while in the clear space.

**Divisible Contract Clause.**—As stated previously, a policy can be written covering various buildings or property at various locations in one policy. If separate amounts of insurance apply at different locations for the same insured, there is a possibility that the company may have a defense at some location for damage by fire. Under such circumstances protection is provided so that there is not a complete defense under the divisible contract clause. The clause provides that if the policy covers two or more buildings, or the contents of two or more buildings, the breach of any condition or warranty of the policy in any one or more of the buildings insured, or containing the property insured, will not prejudice the right to recover for loss occurring in any building insured, or containing the property insured, where at the time of loss a breach of condition or warranty does not exist.

**Inventory and Iron Safe Clause.**—As a principle of good business practice, the insured should keep his books in a safe place so that if goods are completely destroyed the inventory and amount of loss can be ascer-

tained from books of record. The policy may be issued subject to the inventory and safe clause. The inventory and safe clause contains the following provisions :

1. The insured must take an inventory of his stock and other personal property once every 12 months during the term of the policy. If the inventory has not been taken within one year prior to the date of the policy, a detailed inventory must be taken within 30 days after the issuance of the policy.
2. The insured must keep books and inventory securely locked in a fireproof safe at night and at all times when the premises are not actually open for business, or in some secure place which is not exposed to fire which would destroy the building where the business is being conducted.
3. In case of loss the insured must produce his books and latest inventory.

**Removal of Goods.**—An insured who may be covered in one location may desire to move his property to another location. Permission for removal of goods to the new location may be obtained by the attachment of a “removal permit” to the policy. Protection will be provided prorata at the new location as well as for the goods which remain at the old location. As soon as removal is completed, coverage is limited to the new location.

**Automatic Sprinkler.**—Insurance companies allow a reduction in rate if an automatic sprinkler system is used. In such cases the endorsement provides that the insured must use due diligence to maintain the sprinkler system as far as the system is under the insured’s control. No change may be made in the system or in the water supply thereof unless permission is first granted by the bureau of which the insurance company is a member. Permission, however, is granted in case of break, leakage, or the opening of sprinkler heads to shut off the water from so much of the sprinkler system as may be imperatively necessary. In addition, the insured must notify the bureau of this fact and must restore the protection as promptly as possible.

Similarly, if the rate is based upon the use of a sprinkler system and an approved centrally supervised sprinkler service, the requirements of the above clause also apply.

**Standpipe Equipment.**—A reduction in rate can be obtained by the installation of an approved standpipe. An endorsement is attached to the policy, which provides that the rate is based on the protection of the premises by standpipe equipment. If the standpipe equipment and water supply are under the control of the insured, he must use due diligence to maintain them in good working order. No change may be made in the

system or water supply for it without the consent of the bureau of which the insurance company is a member.

**Watchman and Clock.**—The use of a watchman and clock will give the insured a reduction in rate. Under these circumstances an endorsement is attached to the policy which provides that the insured, so far as it is within his control, must maintain an approved watchman service with an approved recording system or watch clock at such times as the premises are not in actual operation.

**Builder's Risk Reporting Form.**—A contractor erecting a building faces the problem of providing adequate insurance for the increasing value of the building as it nears completion. This need is met by the Builder's Risk Reporting Form. Provisions of the policy are as follows :

1. Coverage is granted on the building in course of construction, including foundations (except as excluded), additions, attachments, and all permanent fixtures.
2. Materials, equipment, supplies, and temporary structures of all kinds to be used in the construction of the building are covered, as also builder's machinery, tools, and equipment when not otherwise insured. This property is covered while forming a part of or contained in the building or temporary structures, while in cars on switches or sidetracks on the premises, or within a stipulated number of feet, for example, 100 feet of the building, or while on adjacent sidewalks, streets, or alleys, or while in the open on the premises described.
3. The policy covers the property only while the building is in process of erection and completion and unoccupied. When the building is partly or wholly occupied, the company must be notified and the rate adjusted, except that machinery may be set up and tested if the building is to serve as a manufacturing plant.
4. No coverage is provided for brick, stone, or concrete foundations, piers, or other supports which are below the under surface of the lowest basement floor. If the building has no basement, these items are excluded when below the surface of the ground.
5. The insured must prepare a monthly statement of property values and pay additional premiums required under the policy. On the effective date of the policy, and monthly thereafter up to and including the expiration date, the insured must prepare a statement showing the value of the property. The additional premium must be paid monthly.
6. The insured will be indemnified for not more than that proportion of any loss which the last reported value of the property bore to the actual value of the property at the time of such last report.

**Builder's Risk Completed Value.**—The Builder's Risk Form, as described previously, provided for periodical reports on values. In order

to avoid these reports, it is possible to obtain a Builder's Risk Completed Value Form. Under this form the amount of insurance placed at the beginning of construction is equal to the entire completed value of the property. Therefore the builder has full protection on his property at all times and need not concern himself with insufficient protection due to error in failing to make proper reports. The policy does not cover cost of excavation, real property which existed prior to current construction, nor, unless *specifically* stated, brick, stone, or concrete foundations, piers, or other supports which are below the under surface of the lowest basement floor, or where there is no basement, which are below the surface of the ground, or underground flues, pipes, or wiring.

The form is a 100% coinsurance form. Therefore if plans are changed during the course of construction involving increased values over the original estimate, provision should be made for increasing the amount of insurance.

The provisions of the form are similar to the Reporting Form except for the following:

The amount of insurance stated in the policy is provisional. It is a condition of this form, wherein the rate and premium are based on an average amount of liability during the period of construction, that at any date while the policy is in force the actual amount of insurance in force is that proportion of the provisional amount of insurance which the actual value of the property on that date bears to the value at the date completed, but cannot in any case exceed the provisional amount.

In the event of loss, the company is not liable for a greater proportion than the provisional amount of insurance under the policy bears to the value of the property at the date of completion.

**Depreciation.**—After a building is erected, it will depreciate over a period of time. In case of loss the company will pay only for the depreciated value. By endorsement the company will agree to pay for the replacement new. Under such circumstances the company is liable for the value of the building, including building service equipment which is part of the property, and for the cost of replacement with material of like kind and quality within a reasonable time after the loss and without deduction for depreciation. However, the company is not liable beyond the actual cash value at the time of the loss unless the damaged or destroyed property is actually repaired, rebuilt, or replaced on the same site. In addition, there is no liability for increased cost occasioned by the enforcement of a state or municipal law or ordinance regulating the construction or repair of the building.

**Increased Cost of Construction.**—Under the policy, the company is not liable for any increased cost occasioned by the enforcement of any state or municipal law or ordinance regulating the construction or repair of the building. If any extra cost may be involved, coverage can be obtained under the Increased Cost of Construction Form. The greater cost of repair, construction, or reconstruction is limited however to the minimum requirement of the state or municipal authority, and the greater cost of locating on the same site a building of the same type with the same total floor area and the same height and as nearly like the building destroyed as possible, having regard to such changes as may be required by the law or ordinance. The company is not liable for the increased cost unless the damaged or destroyed property is actually rebuilt or replaced on the same site. Furthermore there is no liability for any loss except that which is in excess of the replacement value at the time of loss of the entire building without deduction for depreciation, nor for any cost of the demolition of any portion of the insured building.

**Demolition.**—As was stated previously, the fire insurance policy does not provide protection where, due to ordinance, after a part of the building has been damaged the authorities do not permit the repair of the building. The building or part damaged by fire may have to be demolished. In order to meet loss due to this contingency, the insurance companies attach the demolition insurance endorsement to their fire insurance policy.

Provisions of the demolition insurance clause are as follows :

1. The insurance company is liable for loss occasioned by the enforcement of any state or municipal law or ordinance regulating the construction or repair of buildings and in force at the time the loss occurs which necessitates the demolition of any portion of the insured building which has not suffered damage under the policy.
2. The company is not liable for any of the following :
  - (a) More than the amount insured under the policy to which the coverage is attached.
  - (b) Any greater cost of repair, construction, or reconstruction, due to the enforcement of any state or municipal law or ordinance.
  - (c) More than the actual cash value at the time of loss of the building or buildings covered, together with the cost of demolition.
  - (d) Any greater proportion of any loss than the amount insured under the policy on the building bears to the total insurance on the building, whether or not such insurance contains the endorsement or is on the same interest as that described in the policy.

Another endorsement can be obtained which will, in addition to the loss due to demolition, also cover, for a greater cost of repair on account of law or ordinance, the repairing or rebuilding, construction or reconstruction, limited however to the minimum requirements of the state or municipal authority and also provided the property is actually repaired, rebuilt, or replaced on the same site.

The previous endorsement will therefore provide for the cost of demolition and extra costs. However, no consideration is given to the depreciated value of the property. By a further endorsement the insurance company will also be liable for the amount of depreciation. Therefore, the company will be liable for any loss covering depreciation, and the greater cost of repair, construction, or reconstruction of the damage of the destroyed property if actually repaired, rebuilt, or replaced on the same site.

**Errors and Omissions.**—A banking institution which lends money on real-estate mortgages requires policies to protect these mortgages in case of fire. Contingencies may arise where, due to an error or unintentional omission, proper coverage for the amount of a mortgage was not obtained.

Mortgages may not be adequately protected as a result of errors and omissions, such as the following :

1. The policy was written for the wrong term.
2. The description of the property was incorrectly stated in the policy.
3. The occupancy of the building was incorrectly described.

In order to avoid loss due to errors or omissions, insurance companies issue a policy covering against loss resulting from these contingencies. The policy is limited to the mortgagee's interest. Therefore if title to the property is taken by the lending institution and insurance is not properly written, the insurance company is not responsible.

The policy covers the insured's mortgage interest when the insured's interest in the building is not covered by specific fire and lightning insurance by reason of error or accidental omission in the operation of the mortgagee's customary procedure in requiring, procuring, and maintaining valid fire and lightning insurance, payable to itself as mortgagee.

The insured must make every reasonable effort to require, procure, and maintain valid fire and lightning insurance, payable to itself as mortgagee, under terms and conditions customarily accepted by the insured, in amounts not less than customarily required by the insured.

*Limit of Liability.* The company is not liable for

1. (a) more than the balance due the insured under the mortgage on the property damaged or destroyed; (b) also less the amount due the insured under all other valid insurance on the damaged property, whether by solvent or insolvent insurers; (c) also less any amount recoverable by the insured under any specific insurance on the property not payable to the insured; or
2. an excess of the actual direct loss by fire or lightning to the building or buildings determined in accordance with the printed conditions of the policy; or
3. a greater proportion of the loss than the amount insured bears to a specified percentage, for example 10%, of the total net amount of all outstanding mortgage loans in which the insured has a mortgage interest, within the territory described by the policy at the time when the loss occurs; or
4. more than the proportion of the loss which the policy bears to the whole amount of similar insurance protecting against errors and omissions, whether the similar insurance is valid or not, or collectible or not.

The company is not liable for loss to the insured's mortgage interest resulting from damage to the property involved occurring more than a specified period of time, for example, 10 days, after the insured had knowledge that the required amount of specific insurance on the property was not in effect, if, because of unfavorable conditions affecting the property, the insured has not, or has been unable to secure, the required amount of specific insurance. The insurance is excess insurance and is not treated as contributing insurance with specific insurance on the property.

Whenever the payment to the insured equals the balance due under the mortgage, or when the payment is less than such balance due under the mortgage, and the insurance company elects to pay to the insured the balance due on the mortgage (after deducting any amount recoverable from any other insurance), the company must receive full assignment of the mortgage and all securities held as collateral for the mortgage debt.

**Customs Duty.**—Goods placed in bonded warehouses may be damaged by fire. In addition to the loss which results from damage to merchandise, loss may be incurred by reason of duties paid, or that would have to be paid, to the government prior to removal of the goods from the warehouse. Protection against the loss of merchandise and customs duties is provided by the Customs Duties Form. This endorsement carries the following provisions relating to customs duties :

1. The form covers customs duties paid or payable to the United States Government on insured merchandise while in customs custody.
2. Liability under the endorsement cannot exceed the same percentage of the duties that the adjusted loss on merchandise constitutes of the sound value of the merchandise.
3. If, in the event of loss, it becomes necessary, in the judgment of the company, to remove any of the merchandise from customs custody, the company agrees to advance for the account of the insured, the proportion of the customs duties payable on the merchandise that the amount of insurance under the endorsement bears to the total amount of customs duties imposed on the entire insured merchandise. Any deficiency in customs duties payable must be paid by the insured.
4. If the customs duties have not been paid, proper application for abatement must promptly be made in approved form to the Collector of Customs, and the liability of the company cannot exceed its prorata share of the difference between the amount actually abated, if less, and the amount ascertained by applying to the customs duties involved the percentage of loss on the merchandise.
5. If, prior to liquidation of the application for abatement, the insured desires to remove the damaged merchandise from bonded warehouse or customs custody, the company will advance for the account of the insured not to exceed its prorata share of an amount equivalent to such percentage of the customs duties imposed thereon as equals the percentage of loss on merchandise.
6. The insured must, upon payment of the loss of customs duties or advancement of customs duties, maintain his claim against the United States Government for refund or abatement to the extent of the company's interest therein, and must constitute the company or its nominated representative his attorney to prosecute such claims and collect any awards.
7. Any excess of advances provided for over the amount of loss must be refunded by the insured at the time the loss on the merchandise is paid.

**Limited Liability Clause.**—A fire policy may be required by a bailee, as, for example, a furrier engaged in storage and repairing. He may issue a receipt to his customers agreeing to insure the customer's goods and limiting his liability to the amount stated in the receipt. The total amount of insurance that he will purchase will be affected by the amounts for which he assumes liability under the various receipts given to his customers. In such event the limited liability clause can be added to the fire policy.

This clause provides that in case of loss upon property held by the insured on storage or for repairs, and on which a limitation as to the liability of the insured to the owner or owners for loss by fire and light-

ning has been fixed or agreed upon, by the issue of a receipt or otherwise, the "actual cash value" of the property can in no case exceed the amount of the limit of liability so fixed and agreed upon by the insured and his customer. This subject will be discussed in connection with inland marine insurance.

**Legal Liability.**—A business concern may hold or use property of others, and in case of fire or similar peril the concern may be held responsible for the loss of the property if the property was damaged due to negligence of the concern. Protection against loss of property while in the possession of a business concern can be obtained through legal liability insurance.

The policy provides that the company will be liable for the legal liability of the insured as determined and imposed by law for loss or damage to personal property owned by others, resulting from the perils insured against.

Upon the occurrence of loss or damage, the insured must give immediate written notice to the company or its authorized agent. If any claim covered by the insured is made against the insured on account of loss or damage, the insured must immediately notify the company. If suit is brought against the insured to enforce any claim or claims, the insured must immediately forward to the company every summons or other process served on him. The company will at its own expense defend the suit in the name and on behalf of the insured, and will pay the amount of judgments rendered against the insured, subject to the limit of the company's liability.

There is a possibility that the insured may carry similar insurance. Therefore the policy provides that if, at the time of loss or damage, the insured has any other similar insurance covering the legal liability of the insured for the perils covered by the policy, the company will only be liable pro rata with all the insurance covering the hazards or loss or damage insured against by the policy.

As the policy is written subject to a limit of liability, the amount of insurance will automatically be reduced by the payment of any claim.

The policy does not cover liability to others assumed by the insured under any agreement. The insured must not voluntarily incur any liability, or incur any expense, or settle any claim, except at the insured's own cost. The insured cannot interfere in any negotiations for settlement or in any legal proceedings. He must, upon request of the company, aid in securing information and evidence and the attendance of witnesses, in effecting settlements and prosecuting appeals. As in the fire insurance policy, the company has the right of subrogation against third parties who may be responsible for the loss.

**Consequential Losses.**—The liability of the insurance company under the fire policy is limited to damage to property, but there may be many other losses which will occur as a result of fire. For example, profits may be lost on goods that have been manufactured, or rent may be lost if the building cannot be used by tenants. In addition, after a fire certain expenses will have to be continued and profits will be lost by business concerns. Losses due to these contingencies may be insured under various forms such as (1) Consequential Loss and Damage, (2) Unearned Premium, (3) Rental, (4) Leasehold, (5) Profits and Commissions, (6) Business Interruption, and (7) Tuition Fees.

**Consequential Loss and Damage.**—As was stated previously, the fire insurance policy does not cover any loss which is not directly due to a fire. There are some concerns, however, whose merchandise may be indirectly affected by fire. Protections against consequential loss can be obtained by endorsement to the standard fire insurance policy.

The following types of insured, for example, may take advantage of the protection afforded by an endorsement against consequential loss and damage :

1. Manufacturers of garments, such as clothing, who send various parts of the suit outside of their premises for manufacturing. A coat, for example, may be manufactured on the owner's premises, whereas the vest and pants may be manufactured by contractors at different locations. Should the premises of the contractor where the vests are being manufactured be damaged by fire, destroying or damaging the vests, the remainder of the garments may be decreased in value.
2. Merchants whose stocks are subject to damage as a result of change in temperature.

**GARMENT MANUFACTURING ENDORSEMENT.**—If the policy covers clothing in process of manufacture, an endorsement may be attached which provides that the company is liable for the reduction in value of the remaining parts of clothing or suits.

**TEMPERATURE ENDORSEMENT.**—Merchandise in packing houses and other warehouses artificially cooled by apparatus situated outside the buildings may be subject to loss resulting from temperature changes caused by interruption of the refrigeration process or destruction of the refrigeration apparatus by the peril of fire. The fire policy usually contains an exemption endorsement freeing the company from these consequential damages. An endorsement may be attached whereby the insurance company will assume liability for loss or damage to contents by reason of temperature changes resulting from the total or partial destruction or disability of the cooling apparatus, connections, or supply

pipes caused by fire outside of the building in which the property is located.

Loss occurring due to fire when cooling apparatus is located inside the premises containing the merchandise is regarded as a direct, not consequential, loss and can therefore be covered without any specific statement to that effect.

**Unearned Premium.**—When a fire loss occurs during the period of insurance, an extra premium may be required on the amount of the loss payment unless for a small amount, as, for example, \$500, in order to restore the policy to its original amount. An unearned premium endorsement will be attached to the policy, which provides that on payment of an additional charge the insured can protect himself against payment of additional premium for the period of time that the policy would ordinarily continue in the absence of fire.

**Rental Insurance.**—An owner of a building may suffer loss to his property due to damage by fire. Protection is provided against this contingency by the standard fire insurance policy. However he may also suffer a rent loss because the building cannot be used by a tenant. If the building is occupied by the owner personally, he may suffer a loss in rental value. Rental value may be said to be the value to the owner of the building that he is occupying. The various forms of rent and rental value insurance provide for protection against loss of rent through fire, after deduction of charges and expenses that do not necessarily continue.

There are three forms available and these are:

1. Rented or vacant form, which provides protection to the owner without considering whether or not the building was rented or untenanted at the time of the fire.
2. Rental value under seasonal lease, which provides for protection against loss of rents due to fire at property usually occupied during a limited season of the year.
3. Rental value premium adjustment form, which is similar to the rental or vacant form except that there is a provision for the adjustment of the premium at the end of the policy year, depending on the total rental income received by the insured.

Under the Rental or Vacant Form, the amount of insurance is determined by the length of time required to rebuild the property if the building were totally destroyed. The amount of insurance required is the total gross rental value of the building for that period of time. The policy can be written subject to various coinsurance clauses, that is, 60%, 80%, or 100%. The use of these various percentages of coinsurance depends upon the proportion of the year that would be required to rebuild the property. The maximum liability of the company under this form equals the loss of rental value less noncontinuing charges and ex-

penses of untenantable portions of the building from the date of the loss until such time as the property could be restored to the same condition as before the loss, with the exercise of due diligence and dispatch.

The Rental Value Under Seasonal Lease Form requires that the amount of insurance shall be the amount of rent stated in the lease. The company's liability is an agreed amount per month during the specified period of the term of the lease. If the property can be repaired before the end of the term, then the amount of loss will be reduced by any recovery from the original lessee or any other source. There is no liability for loss of rents during that part of the year when the building is not leased to a tenant. However, if a fire should occur prior to the commencement of the period of the lease, then the company would be required to pay for any loss of rents during the period of the loss if the building could not be repaired before the commencement of that time.

A Premium Adjustment Form is used when the annual rental cannot be known in advance. For example, a landlord may lease property on a percentage of income basis. The policy will then be issued for an estimated amount of insurance. Sixty days after the expiration of the policy, a rental income statement must be filed with the insurance company showing the total average rental for the period and the premium will be based upon that amount. The policy is written subject to the 100% coinsurance clause.

Under the various forms, the company is liable for any expenses incurred by the insured to reduce the loss, not exceeding the amount by which such expenses reduce the amount of loss. Special exclusions found in the rental forms stipulate that the company is not liable for any increase of loss which is

1. Occasioned by any local or state ordinance or law regulating construction or repair of buildings.
2. Due to interference at the insured premises, by strikers or other persons, which causes a delay in the restoration of the insured property.

**Leasehold Insurance.**—A lessee may have contracted for the rental of a building at a very favorable price. For example, he may have negotiated a ten-year lease at \$150 per month with a current rental value of \$250 per month. Many leases contain a clause called the "fire clause" which provides that, under certain conditions, if fire destroys a portion of the building the lease is terminated. The lessee can obtain protection against this contingency, as well as other contingencies causing loss due to fire, by leasehold insurance. Important provisions of the leasehold policy are as follows:

1. Where premises are occupied by the insured, the company is liable for the difference between the rental value of the premises at the

- time of the fire and the actual rental that would have been paid by the insured during the unexpired term of his lease.
2. Where the premises are sublet, the company is liable for the difference between the total rent, as fixed by the sublease in force at the time of the fire, and the sum of the total rent to be paid by the insured for the premises sublet, and any maintenance and operating charges of the insured, for the unexpired term of the insured's lease.
  3. The policy must contain a description of the fire clause, stating the conditions under which the lease will be terminated due to fire.
  4. Since the form provides that the loss is paid in one sum and not each month for the balance of the lease, the liability for the remainder of the lease will usually be paid, less a specified discount, such as 4% compounded semiannually, except for a short period of time, such as four months, when no discount is allowed.
  5. If the lessee is permitted to remain in possession at will subsequent to the cancellation of the lease, the company is nevertheless liable for the actual loss sustained by the insured, subject to the limit of liability stated in the policy.
  6. If damage to premises does not cause cancellation of the lease but renders the premises untenable, the company is liable for its prorata proportion of the actual loss sustained by the insured to his interest as lessee, for the time, but not beyond the expiration of the lease, as may be necessary with the exercise of reasonable diligence in order to restore the premises.
  7. The amount of the policy is automatically reduced throughout its term in the proportion that the interest of the insured as lessee decreases.
  8. Since the liability of the company is reduced as the expiration date of the lease becomes nearer, the insured may desire to cancel his policy and have it rewritten for a smaller amount of liability. To avoid this contingency, the policy prohibits cancellation for the purpose of rewriting the policy for a term extending beyond the expiration date or for a lesser amount, except when there has been a reduction in the monthly interest of the insured as a lessee.
  9. The company is not liable under the following conditions:
    - (a) If the lease is altered or modified in any of its conditions that affect the company's liability.
    - (b) By reason of any omission of the insured.
    - (c) If the insured exercises his option to cancel the lease.
    - (d) If some regulation prohibits the reconstruction of the building.
    - (e) By suspension or cancellation of any licenses.

**Profits and Commissions.**—The standard fire insurance policy covers loss of merchandise resulting from fire, but not the loss of profits which could have been made had the fire not occurred. If the cost of the goods was \$100, and if it could have been sold for \$120, the company's liability under the fire policy is limited to the replacement value, that is, \$100.

Similarly, an individual may have received goods as consignee at an invoice price of \$150 for which he would have received 10% commission, that is, \$15, when the goods were sold. In case of fire the consignee could not collect his commission, since the standard fire insurance policy does not provide for the payment of loss of commissions due to fire. To meet these contingencies, the insurance companies issue a Profits and Commissions Form which covers the loss of profits or commissions which would have been made if finished stock had not been damaged by fire. It must be noted that the form essentially covers finished stock of merchandise and not goods in the process of being manufactured.

Profits and commissions insurance is available in two forms which will be separately analyzed.

Provisions of Form 1 are as follows :

1. Coverage is provided for loss of profits or commissions on stock, whether sold or unsold, while contained in the insured premises.
2. Profit is defined to be the excess of the price which would have been receivable on the date of loss from the sale of the stock over the cost of replacing the stock, with like kind and quality at the time of loss. Commission is the amount which would normally be earned by the insured on the date of loss from the sale of stock. Expenses which could be avoided or discontinued after the stock was damaged or destroyed are not part of the loss. Expenses which are necessarily incurred for the purpose of reducing any loss are considered as a part of the loss, but not in excess of the amount by which the loss covered has been reduced.
3. The term "stock" means any stock (a) which is ready for packing, shipment, or sale; or (b) which is in the hands of others than the insured for processing or finishing; or (c) which is on consignment.
4. Various methods are used for determining the loss. For example, the amount of loss is determined by the lowest amount of the following limits: (a) "The percentage of loss or damage on stock," that is, the percentage of damage as shown by the final outcome of the adjustment of the damage on stock by the company which insured the stock, including the result of any salvage handling operations whether completed before or after the adjustment. If no insurance was carried on the stock, then the percentage of loss or damage of stock must be determined by the insurance company and the insured. (b) The actual loss of profits and commissions sustained by the insured. (c) The actual loss of profits and commissions resulting from a loss on sales or a reduction in the amount of the profits and commissions derived from the sales.
5. In order to reduce the loss, the insured must, as soon as practicable, make use of the stock and acquire and make use of other stock and other premises. Any reduction in loss resulting must be considered in determining the amount of the liability of the insurance company.

The principal provisions of Form No. 2 are similar to Form No. 1. Under the second form, recovery is not limited to the percentage of damage suffered on the merchandise. The loss can be determined by the lowest amount provided by the following methods: (1) The actual loss of profits and commissions sustained by the insured on the damaged or destroyed stock. (2) The actual loss of profits and commissions resulting from a loss of sales or a reduction in the amount of profits and commissions derived from sales.

**Market Value Clause.**—Under some circumstances, the loss can be determined by the use of market value. The “market value clause” provides that if the stock is of a kind which is bought and sold at an established market exchange and where the market prices are day by day posted and quoted in the public press, then the value of the stock will be the market price at the time and place of loss, less all discounts and charges to which the stock would have been subject had no loss occurred. In determining the application of the coinsurance clause, if any, forming a part of the policy, the market value will be taken into consideration.

**Selling Price Clause.**—Limited profits coverage can be obtained by endorsement to the policy insuring stock or merchandise actually sold on order but held awaiting delivery. The company is liable for the price at which the stock was sold, less all discounts and charges to which the stock would have been subject had no loss occurred. However, in determining the application of the coinsurance clause, if any in the policy, the sales value of stock sold but not delivered will be taken into consideration.

**Business Interruption Insurance.**—A manufacturer or merchant who suffers a loss due to fire may find that it would take time to restore the plant and obtain raw materials so that he could again commence to manufacture. In spite of the interruption of business, many expenses may continue. Some of these expenses are salaries of office force, superintendents, managers, officers and directors, rent, taxes, and interest on bonds. In addition, the manufacturer or merchant may suffer a loss of profit due to his inability to operate the business. To meet this contingency, business interruption insurance has been developed. To determine the amount of insurance necessary to protect the insured against loss, the following should be considered: (1) net profits based on those of the previous years, with due consideration for the estimated profits for the ensuing year, (2) all salaries of officers and employees which must of necessity be continued in order to maintain the organization, (3) taxes, (4) rents, (5) royalties on machinery or processes, (6) advertising which has been contracted for, (7) insurance premiums, (8) interest on bonded indebtedness, (9) expense of maintenance of plant or building which must be continued during the business interruption.

Various forms used to meet the needs of manufacturers and merchants, in some jurisdictions, are:

Form No. 1. Coinsurance form for mercantile or nonmanufacturing risks.

Form No. 2. Coinsurance form for manufacturing risks.

Form No. 3. Gross earnings coinsurance form for mercantile risks.

Form No. 4. Gross earnings coinsurance form for manufacturing risks.

FORM No. 1.—Mercantile or nonmanufacturing risks. Provisions are:

1. If the building, machinery, equipment, or stock is damaged by fire, the company is liable for a loss covering (a) net profits of the business which are thereby prevented from being earned; (b) such charges and other expenses, including salaries of officers, executives, department managers, employees under contract, and other important employees, as must necessarily continue during a total or partial suspension of business, to the extent only that such charges and expenses would have been earned had no loss occurred; and (c) if desired, the insured's ordinary pay roll not exceeding 90 days unless such 90-day limit is increased by endorsement.
2. The company is liable for such expenses as are necessarily incurred for the purpose of reducing any loss under the policy (except expense incurred to extinguish the fire), not exceeding, however, the amount by which the loss is reduced.
3. The insurance carried must be equal to 80% of the insured's annual net profit and all charges and other expenses (except heat, light, and power, and the entire ordinary pay roll) that would have been earned during the 12 months following a fire if no coverage is provided for 90 days' ordinary pay roll. If such coverage is provided, then insurance equal to an additional 80% of such 90 days' ordinary pay roll must be carried.
4. The past and anticipated experience of the business is used to determine the amount of any loss and the amount of insurance required in accordance with the coinsurance clause.
5. Without increasing the total amount of the policy, the company is liable for such additional time, if any, not exceeding 30 consecutive days as may be required, with the exercise of due diligence and dispatch, to replace or restore any stock damaged or destroyed while in the buildings described in the policy or in the open on the premises described by the policy, and to restore the stock to the same condition in which it stood at the time of the fire.
6. If the insured can reduce the loss by using other property, equipment, or supplies, such reduction is taken into account in determining the amount of the loss.
7. If as the result of a fire in the insured's premises or in the vicinity of the insured's premises, the insured cannot operate because access to his premises is prohibited by order of civil authority, the company is liable for the loss for a period not in excess of two weeks.

8. Exclusions. The company is not liable for (a) any loss which may be occasioned by any ordinance or law regulating construction or repair of buildings, (b) the suspension, lapse, or cancellation of any lease or license, contract, or order, (c) any increase of loss due to interference at the premises by strikers or other persons with rebuilding, repairing, or replacing the property damaged or destroyed, or with the resumption for continuation of business, (d) any other consequential loss or remote loss.

FORM NO. 2.—This form has many provisions similar to those of Form No. 1 and applies to manufacturing risks only. Additional provisions in Form No. 2 are as follows :

1. Definitions. The following terms used in the policy are defined :
  - (a) The term "raw stock" means materials and supplies usual to the insured's business in the state received by the insured.
  - (b) The term "stock in process" means raw stock which has undergone any aging, seasoning, mechanical or other process of manufacture at the premises, but which has not become "finished stock."
  - (c) "Finished stock" means any stock which in the ordinary course of the insured's business is ready for packing, shipment, or sale.
2. After the insured premises or equipment is restored to operating condition, the policy will cover any additional time, not exceeding 30 consecutive days, needed to restore the "stock in process" to the same state as it was at the time of the loss.

If the insured's "raw stock," while in the building or in the open on the premises, is damaged or destroyed so as to necessitate a total or partial suspension of business, the company is liable for loss during such additional time, if any, after the premises or equipment has been restored to operating condition, but not exceeding 30 consecutive days, to restore or replace the damaged or destroyed raw stock with the exercise of due diligence and dispatch. This period is further limited by the time for which the damaged or destroyed raw stock would have made operations possible had there been no loss. Consequently, if the raw stock destroyed would have enabled the insured to operate for 20 days had there been no loss, that is the company's limit of liability, although the insured might not be able to replace the raw stock for a long period, as for example, ten months.

3. Additional exclusions. The company is not liable for (a) any loss resulting from damage to or destruction of "finished stock," (b) the time required to reproduce and finish stock which may be damaged or destroyed.

FORM NO. 3 AND FORM NO. 4.—Form No. 3, the gross earnings coin-  
surance form for mercantile risks, and Form No. 4, the gross earnings

coinsurance form for manufacturing risks, are similar to Forms Nos. 1 and 2, respectively, with the following differences :

1. If the building, machinery, equipment, or stock is damaged by fire, the company is liable for any reduction in gross earnings directly resulting from the business interruption, less charges and expenses which do not necessarily continue during the period of restoration.  
This provision also automatically includes the payroll to the extent necessary to resume operations of the insured with the same quality of service which existed immediately preceding the fire.
2. Gross earnings is defined as follows :
  - (a) For mercantile risks the annual gross earnings is net sales, less the cost of merchandise, plus other income from the business.
  - (b) For manufacturing risks gross earnings is the total sales value of production through use of the insured property, less the cost of all "raw stock" from which such production is derived.
3. The insurance must be equal to a stipulated percentage of the annual gross earnings. The percentages that are used are 50%, 60%, 70%, or 80%. The choice of the coinsurance percentage will depend upon the insured's estimate of the longest time that the business may not be operated as a result of a total loss. For example, if the insured estimates that the maximum time will be six months, he should use the 50% coinsurance clause.

The business interruption form can be endorsed to include coverage for the perils of extended coverage, vandalism, and malicious mischief. If desired, the thirty-day consecutive limitation for the restoration of raw stock or stock in process under the manufacturing forms and for the restoration of stock under the mercantile forms can be extended by endorsement.

**AGREED AMOUNT CLAUSE.**—In order to avoid any adverse effect because coinsurance is required, an endorsement known as the "agreed amount clause" may be attached to certain risks insured under either of the mercantile forms, providing that, until the expiration date or other date specified in the policy, the coinsurance requirement is met if a specified amount of insurance is carried. After the date mentioned in the agreement, the coinsurance clause attaches to the policy again without modification unless another endorsement is attached. The insured must file with the insurance bureau of which the company is a member a satisfactory statement of the business interruption value prior to the specified time in the endorsement, a new statement determining the value, and all policies must be endorsed for another year, with any necessary adjustment.

**BUSINESS INTERRUPTION PREMIUM ADJUSTMENT.**—Inasmuch as the amount of business interruption insurance must be stated in advance, the amount purchased may be more than necessary. Under the Gross

Earnings Forms, provision can be made for a return premium if a greater amount of insurance was purchased than required. Under the premium adjustment clause, the insured must, within a stipulated period, such as 90 days following the expiration date of the policy, furnish the company with a satisfactory statement of the amount required. The company must be allowed to inspect the property and to examine the insured's records at all reasonable times during the term of the policy or within one year after expiration. Therefore the premium will be based on the actual requirement of the insured.

**DEFERRED LOSS PAYMENT CLAUSE.**—The amount of loss may be based upon an anticipated loss of use for a long period, as, for example, in excess of six months. Under such circumstances interim adjustments can be made by the company. A review and correction of the amount of loss will be made at the end of the first six months following the date of loss, and also covering the next three months' period. At the end of that period the next three months' period will be determined. This procedure will be continued until the entire amount of the policy or liability under the policy is exhausted.

**Contingent Business Interruption Insurance.**—The forms previously discussed limit liability to the loss of profits, continuing expenses, and ordinary pay roll for manufacturers, jobbers, and retailers at the insured's premises. There is also the possibility that a manufacturer may depend on materials prepared at another plant which is operated by a different firm. If the supplier's plant should be damaged by fire, the manufacturer would not be able to continue his operations. To meet this loss, contingent business interruption insurance is available. The following information must be stated in the policy: (1) name of supplier of material, (2) location, and (3) property occupied by the supplier. The form contains provisions similar to the Business Interruption Forms.

The form provides that if the supplier's building or contents destroyed or damaged would prevent delivery of materials to the insured, thereby necessitating a total or partial suspension of the insured's business, the company is liable under the policy for the actual loss sustained, similar to other forms.

A selling agent may also suffer loss if his principal is not able to deliver goods because the principal's plant has been damaged by fire. Under such circumstances the agent will lose commissions until operations are again resumed and deliveries can again be made to his customers. The Selling Agent Commission Form provides protection.

**Business Interruption Form for Building in Course of Construction.**—A building in course of construction may be damaged or destroyed by fire, thus preventing completion and operation of the building. This would mean the loss of profits that would have been earned, as well

as loss of various continuing expenses. The Business Interruption Form can be endorsed so that coverage will be granted if the insured is unable to commence business for which the building is intended on a certain date upon which the business would have begun if no fire had occurred.

There is the possibility that there may be insufficient business experience at the new premises insured to adjust the loss. Therefore consideration will then be given to the previous business experience of the insured at his present place of business.

**Off-Premises Power.**—Business may be interrupted when fire occurs at the premises of the public utility company that furnishes heat, light, power, or gas to the insured. The Business Interruption Forms can be extended to include liability for interruption of business by reason of the damage to or destruction of off-premises public utility power, transformer or switching, stations, substations, or transformers (excluding loss caused by damage to or destruction of off-premises transmission lines) furnishing heat, light, power, or gas to the insured.

**Extra Expense Form.**—Newspaper publishers, ice manufacturers, milk dealers, and many others may have to use other facilities at extra cost in order to continue operations when their premises are damaged or destroyed by fire. These business concerns cannot stop operations without losing many of their customers. Therefore it is necessary for them to obtain other facilities to continue operations. The additional costs of continued operation are met by the Extra Expense Insurance Form.

The extra charges and expense forms differ from the business interruption forms only in that liability is limited to the additional expenses of doing business elsewhere incurred as a result of fire. Provisions of the form are as follows:

1. The company is liable for the necessary extra expense incurred by the insured in order to continue as nearly as possible the normal conduct of the insured's business.
2. The company is liable for the extra expense incurred for not exceeding a length of time, technically called the "period of restoration," required with the exercise of due diligence and dispatch to repair, rebuild, or replace that part of the building or its additions or contents which may be destroyed or damaged. Liability is limited to a stipulated percentage per month during the period of restoration. The largest percentage will be allowed for the first month, and the form may provide a limitation of 40% of the total amount of insurance for that month, with other usually lower percentages for succeeding months over the period.
3. "Extra expense" means the excess, if any, of total cost during the period of restoration, chargeable to the conduct of the insured's

business over and above the total cost that would normally have been incurred to conduct the business during the same period had no fire occurred. The cost includes the expense of using other property or facilities of other concerns and other necessary emergency expense.

4. As soon as is practicable after any loss, the insured must resume complete or partial business operations of the property covered, and insofar as possible, reduce or dispense with such additional charges and expenses as are being incurred.
5. The insured will not receive compensation, nor will the company be liable for extra expenses incurred, as the result of:
  - (a) The enforcement of any ordinance or law regulating or prohibiting construction or repair of building.
  - (b) The lapse or cancellation of any license, lease, or written or oral agreement, or for the cost of compiling books of record or other documents.
  - (c) Any other consequential or remote loss.
6. The company will not be liable for any direct or indirect property damage loss, or for expenditures incurred in the purchase, construction, repair, or replacement of any physical property, except and only to the extent that the company will be liable for expenditures incurred for the purpose of reducing any loss under the policy, not exceeding the amount by which the loss is so reduced.
7. The company will not be liable under the policy for loss of profits or earnings resulting from diminution of business as a result of fire or otherwise.

**Additional Living Expense.**—Extra expense may also be incurred due to fire if it is necessary to obtain another residence. Additional expenses would result from the cost of moving, setting up the new apartment or house, and higher rent. This subject was previously mentioned on page 105.

A separate extra expenses form can be written to cover the necessary expenses incurred by the insured in order to continue as nearly as is practicable the normal conduct of the insured's occupancy following damage or destruction by fire or lightning. There is a limitation usually of 25% of the amount of insurance for each month's recovery, for residential risks.

**Tuition Fees.**—Many schools depend in part upon the tuition fees received from students. When fire occurs the institution suffers a loss of funds in the form of returned tuition. Should the fire occur during the summer, it may seriously affect the entire income during the ensuing school year. Protection against this loss may be obtained by the tuition fee form. Provisions of the form are:

1. The coverage is granted for the total income received from tuition and other income from students, less operating expenses that may not be continued after the fire.
2. The company is liable for the actual loss of tuition fees commencing with the time of fire and ending on the day preceding the beginning of a first school year following the date that the destroyed or damaged buildings and the contents may with due diligence and dispatch be rebuilt, restored, or repaired.
3. If the agreed time to make the property available for use ends on a date within 30 days immediately preceding the beginning of a school year, the period of liability is extended to end on the day preceding the beginning of the second school year following the date that the property could have been restored to use. The words "beginning of a school year" mean the opening date of the school in the fall as prescribed or as would be prescribed in the school catalogue.
4. To reduce the loss, the policyholder is required to use other available property in place of that damaged or destroyed. If the insured makes expenditures to reduce the loss, the insurance company's liability for the extra expense is limited to the amount by which the loss under the policy has been reduced.

**Multiple Location Coverage.**—Many concerns having numerous locations, such as chain stores, can obtain a policy for each location. However, this is a cumbersome method when there are many locations in various states. Certain forms called "multiple location forms" have been prepared by a joint organization to cover, under one policy, merchandise, supplies, furniture and fixtures, and the interest of the insured in improvements and betterments at various locations. Automatic coverage is also provided for new locations. However, the forms cannot cover buildings, and usually do not cover machinery, except for stores and warehouses. The insured must have two or more locations in order to obtain the policy. If the two or more locations are in one state, a similar form is issued by the organization concerned with rates in the particular state.

Two forms available for five or more locations are known as the Monthly Average Reporting Form and the Nonreporting Coinsurance Floater Form.

**MONTHLY AVERAGE REPORTING FORM.**—The principal provisions of this form are as follows:

The policy covers (a) stock, including packages for or containing the stock, usual or incidental to the business of the insured; (b) store, office, and warehouse furniture and fixtures and machinery incidental to stores and warehouses, except while located on the premises of any manufacturing plant owned or controlled by the insured; (c) improvements and bet-

terments to buildings, except to buildings which are owned by the insured, or while located at any manufacturing plant owned or controlled by the insured.

In addition to the property of the insured, the policy also covers property held in trust, or on consignment, or for which the insured may be liable in the event of loss or damage. Therefore the policy covers property belonging to others.

**EXCLUSIONS.**—The policy does not cover (a) motor vehicles, property in transit, property at or in fairs or expositions, or growing crops; (b) property at any location which the insured did not declare to the company unless included in the first report of values as provided in the “value reporting” clause as explained on page 135 and then subject to the limit of liability of an acquired location as indicated in the “Limit of Liability” as explained in the following paragraph.

**LIMIT OF LIABILITY.**—A limit of liability is stated in the policy for each location. In addition, a limit of liability is stated for any other location acquired subsequent to the issuance of the policy, which must be included in the next succeeding monthly report of values made by the insured to the company.

**PROVISIONAL AMOUNT CLAUSE.**—The amount of insurance is provisional, and is the amount on which the insured must pay a deposit premium subject to adjustment at the end of the policy year. The intent of the policy is to insure the total value of the property subject to the limit of liability for each location and provisions for other insurance. Any loss in excess of the limit stated must be borne by the insured or by any other insurance carried to the extent of such excess, notwithstanding that the policy provides that the premium is to be adjusted on the basis of the total value as reported.

**CONTRIBUTING INSURANCE CLAUSE.**—In view of the fact that one company may not be able to or may not desire to write the entire limit of liability, permission is granted for other insurance written upon the same plan, terms, conditions, and provisions as those contained in the form attached to the policy; that is, insurance written upon the Premium Adjustment Coverage Form.

**SPECIFIC INSURANCE CLAUSE.**—At times the insured may carry specific insurance before the multiple location form is purchased, or it may subsequently be necessary, at times, to write specific insurance for some location. Therefore the policy permits specific insurance (a) when it is necessary to procure such insurance to protect values in excess of the limits of liability of the reporting policy, or (b) when disclosed by written endorsement on the reporting policy.

**EXCESS CLAUSE.**—If there is specific insurance, the reporting policy does not attach to or become insurance against any hazard which, at the time of any loss, is covered by the specific insurance, until the liability of the specific insurance has been exhausted. The multiple location policy therefore covers only such loss or damage as may exceed the amount due from the specific insurance (whether valid or not and whether collectible or not) after application of any contribution, coinsurance, average, or distribution or other clauses contained in the policies of specific insurance affecting the amount collectible.

**VALUE REPORTING CLAUSE.**—One of the important clauses requires that the insured must report not later than 30 days after the last day of each month (a) the exact location of all property covered, (b) the total value of the property at each location, and (c) all specific insurance in force at each location on the last day of each month. At the time of any loss, if the insured has failed to file reports of values, the policy covers only at the locations and for not more than the amounts included in the last report of values, less the amount of specific insurance reported, if any, filed prior to the loss.

Liability for loss occurring at any location acquired since filing the last report (except as provided by the value reporting clause) will be apportioned in a like manner, except that the proportion used will be the relation that values reported at all locations less the amount of reported specific insurance, if any, bear to the actual values less the amount of specific insurance, if any, at all locations on the date for which report is made.

**FULL REPORTING CLAUSE.**—If the full report of values under the policy is not made by the insured, he may find that after a loss he will be only partially reimbursed. Under the full reporting or honest clause, liability under the policy cannot exceed that proportion of any loss which the last reported value less the amount of specific insurance reported, if any, at that location where any such loss occurs bears to the actual value less the amount of specific insurance, if any, at the time of such report.

**PREMIUM ADJUSTMENT CLAUSE.**—Since the premium depends upon the monthly report, the final premium is determined as follows: An average of the total of monthly values reported for the term of the policy is made. If the premium on the average at the rates provided exceeds the provisional premium, the insured must pay to the insurer an additional premium for the excess. If the premium is less than the provisional premium, the insurer must refund to the insured any excess paid.

**LOSS REINSTATEMENT CLAUSE.**—If a loss occurs, the amount of the loss will automatically be reinstated after its occurrence, and the insurance will then cover for the original limit of liability. The insured must

pay an additional premium at pro rata of the rate for the unexpired term of the policy on the amount of the loss paid, and the premium can be deducted from the payment of the loss.

**VERIFICATION OF VALUES.**—As the premiums depend upon the reports made by the insured, the company or its duly appointed representative must be permitted at all reasonable times during the term of the policy, or within one year after expiration, to inspect the property insured and to examine the insured's books, records, and such policies as relate to any property covered. This inspection or examination does not waive or in any manner affect any of the terms or conditions of the policy.

**NONREPORTING COINSURANCE FLOATER FORM.**—This form is used by concerns which own stock at various locations where the amount of stock does not fluctuate to any great extent. The premium is computed in advance and therefore, does not vary with audit as in the previous form. To influence the insured to obtain adequate insurance, the policy is written subject to the 90% or 100% coinsurance clause. The policy does not require that the insured notify the company of any changes in location, provided that the limit of automatic coverage at locations other than those listed in the form is sufficiently high to give the insured the proper protection. Should values shift from one or more locations to a new location, and should a higher limit be required, the insured must notify the company so that the limit may be adjusted accordingly.

**FORM A.**—In addition to the above forms issued to cover five or more locations, various state rating organizations issue a form to cover two or more locations in one state. This form is similar to Form No. 1. In some jurisdictions only one location is required.

**Fire Prevention and Protection—Governmental Bodies as Agencies in Such Protection.**—To reduce the tremendous losses suffered on account of fire, there is an increasing agitation for fire prevention. Reduction of fire losses may be accomplished by the following agencies: (1) governmental bodies, (2) the individual, and (3) associations to carry on the fire prevention campaigns.

In the past, governmental bodies, even those of cities and towns, concerned themselves little with the construction of buildings. In this country, moreover, the growth of cities has been so rapid that there has not been much planning in advance concerning the types of construction. Today, however, many cities, aware of the tremendous fire losses, have attacked the problem of reducing the fire cost by introduction of a building code.

The building code consists of a series of regulations governing construction of buildings. There is a tendency to introduce into the building code the requirement of steel and brick and tile construction in place of

wooden construction. Furthermore, some building codes require that factory buildings should have automatic sprinklers. An automatic sprinkler is a device usually consisting of a tank which supplies water to a system of pipes hung from the ceilings throughout the building. The sprinkler is so constructed that as soon as the heat in any part of the building increases to the predetermined temperature, the sprinkler heads on the pipes open, water shoots out, and succeeds, in the large majority of cases, in limiting the destruction to very small areas. This naturally reduces financial loss through fire to a minimum.

In addition to the building code, states and cities have given consideration to the following factors :

**INTRODUCTION OF A HIGH WATER-PRESSURE SYSTEM.**—For the high structures to be found in large cities, the ordinary method of supplying water to fight fire is inadequate on account of lack of pressure. This difficulty can be overcome by the installation of the high-pressure system.

**FIRE DEPARTMENT.**—Every town should have a paid fire department, that is, a group of people working for the city who are primarily concerned with the prevention of fire losses.

**FIRE MARSHAL.**—One of the causes of large fire losses is the act of arson. States that employ a fire marshal have found that such an official can make thorough investigations concerning acts of arson and bring to justice many people who have set fires.

**POLICE PROTECTION.**—Police may be detailed to patrol districts and to notify the fire department immediately in case of fire.

**The Individual and Fire Prevention.**—The individual owner can reduce the hazard by recognizing the following facts :

**CONSTRUCTION OF THE BUILDING.**—If a building is constructed in accordance with modern fire regulations and requirements, the chances of loss through fire are greatly decreased. Combustible interior construction should be discouraged, and the construction of fireproof buildings should be increased.

**OCCUPANCY.**—The danger from fire depends largely upon the type of occupancy of the building. As may well be imagined, to use a building for the manufacture of explosives is much more dangerous than to use it for the manufacture of textiles.

**EXPOSURE.**—When an individual uses a building, he must consider not only his own but also the buildings surrounding his, their types, and the uses to which they are put. For there is not only the possibility that

fire may arise in his own building, but the further possibility that fire may extend to his own from surrounding buildings.

**FAULTS OF THE MANAGEMENT.**—One of the main causes of fire is untidiness. Buildings which are littered up with rubbish offer fruitful possibilities for fire, either by spontaneous combustion or by the inadvertent dropping of a match. Every owner of a building should see that his premises are kept tidy and that the usual requirements against smoking are strictly enforced.

**FIRE APPLIANCES.**—To make his building a better risk and so decrease the insurance rate, if for no other reason, the owner of a building should introduce every possible device to reduce the fire hazard. Fire pails placed throughout the building furnish one of the best and least expensive forms of fire appliance. Standpipes and hose are another excellent device. The sprinkler system has already been described. It should be installed even when not required by the building code.

**Associations to Carry on Fire-Prevention Campaigns.**—Many years ago the fire insurance companies realized that their profits depend in part upon the reduction of fire losses, and therefore the stock fire insurance companies organized the National Board of Fire Underwriters. This organization has for a great many years carried on a campaign for the reduction of fire losses. Some of its important functions are as follows:

1. To plan building codes for cities.
2. To make municipal surveys and advise the city concerning all matters of fire prevention and protection.
3. To carry on campaigns against incendiarism.
4. To introduce the idea of fire prevention in educational institutions and plan for the success of a national Fire Prevention Week.
5. To conduct the Underwriters' Laboratories. These laboratories will test for the manufacturer any commodity made for the prevention of fire or for protection against fire. If the device meets with the standards of the Underwriters' Laboratories, the manufacturer is permitted to place on certain commodities which he manufactures the seal of the Underwriters' Laboratories, which reads, "Underwriters' Laboratories, Inc. Inspected." Many owners of property under construction insist on the use of material with the seal of approval of these laboratories. It connotes the possibility of reduced fire rates. In general, the value of this division of the National Board of Fire Underwriters is extensively recognized.

**Reasons for Fire Prevention.**—A fire prevention campaign should produce the following results:

**SAVE PROPERTY AND THUS SAVE CAPITAL WEALTH.**—Although the owner may be reimbursed by the insurance company for his fire loss, there is, nevertheless, an economic loss to society because the wealth has been consumed by fire. All that the fire insurance company can do is to provide the owner with a means whereby his loss can be distributed among the many.

**REDUCE THE COST OF INSURANCE.**—Since the fire insurance companies compute their rates on the basis of income required for taking care of losses, reduction in the amount of the losses means reduction in the rate of premium. If the losses are reduced, the fire insurance cost to the individual policyholder may also be reduced.

**ELIMINATE CARELESSNESS.**—The fire prevention campaign brings home to the individual his relationship to society in connection with the fire hazard. Many people who have a fire insurance policy believe that they have no further interest in connection with the protection of their property, since the loss will be paid by the insurance company. The fire prevention campaign should clearly demonstrate the fact that the duty of every owner of property is so to guard his property that the loss due to carelessness will be eliminated.

**Rate Charge.**—An examination of fire insurance policies will indicate that there are a great many variations in the premiums charged. The reasons for this variation can be shown by the following examples :

1. Consider a wooden dwelling in a city with a paid fire department, and a wooden dwelling of exactly the same type in a city without a paid fire department. The first runs less risk of loss through fire than the second.
2. Take two buildings in the same city, a reinforced concrete building and a wooden building. Obviously the wooden building represents a greater fire hazard than the building of reinforced concrete.
3. Think of a building with a store used for the sale of clothing only, and in the same locality another of the same type of construction with a store used for the manufacture as well as the sale of clothing. The latter building offers a greater fire hazard on account of the danger involved in manufacturing.
4. Suppose a factory is not adjacent to any other buildings, and, in the same city, another similar factory is surrounded by other buildings. The latter represents the greater risk because of the exposure hazard or danger from fire in the other buildings.

These illustrations indicate that the rate charges vary with different conditions, important factors being susceptibility and hazards ; difference in location ; difference in construction of buildings ; and difference in exposure.

Rates may be classified as "minimum" rates and "specific" rates. A minimum rate is a rate which is applied to an entire group of risks of the same class, although the hazards may vary somewhat. For example, the usual practice of fire insurance companies is to apply the same rate to one- to three-family dwellings of the same type of construction and in the same locality, without regard to variation in hazards. The reason for this is that the expenditure for determining the difference in hazards would hardly be warranted by the possible variation in rates. A specific rate is a rate promulgated particularly for a certain property or occupancy at a certain location after inspection.

There was at first no satisfactory method by which equitable rates could be made for all types of risks. The premium charged was frequently determined by the individual judgment of the underwriters of various companies and was subject to the factor of competition. This method resulted in severe losses to the insurance companies, since the rates were in many cases not adequate. The great public interest in the subject of fire insurance compelled the various state legislatures to inquire into the condition of the business. As a result of investigation, many states passed legislation regulating the rates. The purpose of this legislation was to prevent (1) unfair discrimination between risks and (2) the charging of unreasonable rates for any risk.

Independently of the activities of the states, the fire insurance companies themselves were considering methods by which fair rates could be made. The problem at first mainly concerned mercantile and manufacturing risks. These presented so many variations in hazard that it was necessary to make specific rates for each risk. For the old guess-work method a system limiting the element of judgment was substituted. This system endeavored to take into account, for each accepted risk, the special hazards involved. At present two systems are in general use: the universal schedule and the analytical schedule.

**Universal Schedule for Determining Rates.**—For illustration, the universal schedule will be discussed. In order to explain the working of the universal schedule, the method used to determine the rate for a nonfireproof mercantile building will be described, since this involves considerable detail.

The schedule commences with a key rate, that is, the rate which should be charged for a standard building in the city, prior to considering variations in the individual risk.

After the key rate for a city has been determined, the building to be rated is compared with the standard building upon which the key rate has been predicated. The following important factors are considered in the comparison :

1. Defective and substandard construction of the building.
2. Exceptional construction of the building.
3. Work performed and material kept in the building.
4. Fire appliances provided in the building.
5. Nature of property surrounding the building, that is, the exposure.
6. Management of the building.
7. Special considerations.

**DEFECTIVE AND SUBSTANDARD CONSTRUCTION OF THE BUILDING.**—If the building varies from the construction required for the standard building, there is a greater hazard than that assumed in making the key rate. In order to secure an adequate rate, charges must be added to the key rate. When walls are not constructed properly as to thickness, or floor openings, such as stairs, elevators, hallways, or vents, are defective in construction, both as to thickness of shafts and doors opening into the same, or there is unprotected iron or steel work, additions are made to the key rate.

**EXCEPTIONAL CONSTRUCTION.**—If the construction is above that required for the standard, a deduction is allowed from the rate. For example, a standard building does not require metal trim or that posts, beams, joists, and girders should be over 12 inches thick. The schedule provides a reduction if these are used in the building. The key rate plus the charges made for defective or substandard construction, minus deductions made for exceptional construction, would give the rate for the building if unoccupied.

**WORK PERFORMED AND MATERIAL KEPT IN THE BUILDING.**—The presence or the manufacture of certain commodities may increase the possibility of fire and the danger of its rapid spread. The schedule, therefore, provides that a charge, based upon the most hazardous occupancy in the building, be added to the rate. The rate for the building unoccupied, with this added charge, is called the rate for the building occupied.

**FIRE APPLIANCES PROVIDED IN THE BUILDING.**—To encourage fire prevention, reductions in rate are granted if fire appliances are introduced. Typical examples of fire appliances for which rate reductions are allowed are sufficient pails of water, automatic fire alarms, and chemical extinguishers.

**EXPOSURE.**—The fire hazard of two buildings of exactly the same type of construction will be affected by the buildings surrounding each. A charge, depending upon the buildings surrounding the risk to be rated, is made for the exposure hazard. The exposure hazard of the building

may be minimized by the installation of such devices as standard wired glass windows or standard fire shutters.

**MANAGEMENT OF THE BUILDING.**—One of the serious causes of fire is the improper management of the building. Charges are made for increased hazards resulting from such faults of management as the following :

1. Use of gas stoves which are not properly protected or connected, such as the use of flexible and rubber tubing in place of the proper rigid iron pipe.
2. Crowding of merchandise.
3. Lack of drip pans under machinery causing the floors to be oil soaked.
4. Dirty conditions encouraging spontaneous combustion and quick spread of fire.
5. Defective electric wiring and equipment.
6. Unsafe heating apparatus or flues.
7. Careless handling of hazardous materials such as celluloid, gasoline, paints, and oils.

**SPECIAL CONSIDERATIONS.**—Under certain circumstances, other factors are also considered. Certain sections of a city may indicate an adverse loss ratio, for which a charge is made. On the other hand, there may be sections with special improvements.

**Contents Rate.**—After the rate for the building has been determined, the rate for the contents can be computed. The factors considered are very similar to those for the building and are essentially the following :

1. Key rate.
2. Defective and substandard construction of building.
3. Susceptibility of the occupancies in the building.
4. Inaccessibility to fire department.
5. Fire appliances provided in the building.
6. Nature of property surrounding the building (exposure).
7. Management of the building.
8. Special considerations.

**KEY RATE.**—The rating commences with the key rate, on the assumption that the building is standard.

**DEFECTIVE AND SUBSTANDARD CONSTRUCTION OF THE BUILDING.**—The fire hazard of the contents is increased by defective and substandard construction of the building. The fact is recognized, however, that building deficiencies do not affect the contents hazard as much as the building hazard. The schedule, therefore, provides that an allowance

from the charges for defective and substandard construction shall be granted to the contents rate.

**SUSCEPTIBILITY OF THE CONTENTS.**—The work performed by various tenants in the building, or the stock kept by each tenant in the building, varies in susceptibility to fire, water, smoke, and heat. A stock of hats, for example, is much more susceptible than a stock of iron or steel bars. Similarly, the stock of a dealer in wearing apparel, or of one who does pressing and general repair, is more susceptible to fire loss than the stock of a jewelry repair establishment.

A classification charge, as determined by previous experience, is made for each tenant.

**INACCESSIBILITY TO FIRE DEPARTMENT.**—The fire department should have quick and easy access to the contents in case of fire. Hence a charge is made, subject to exceptions, for stock kept above or below grade floor.

**FIRE APPLIANCES PROVIDED IN THE BUILDING.**—Deductions are made upon a theory similar to that used in rating a building.

**NATURE OF PROPERTY SURROUNDING THE BUILDING OR EXPOSURE CHARGE.**—Since the building in which the contents are kept is affected by surrounding buildings, the fire hazard of the contents may also be said to be affected, for which a charge is made.

**FAULTS OF MANAGEMENT.**—Charges are based upon the same theory as that used in rating a building.

**SPECIAL CONSIDERATIONS.**—Charges and credits are based upon the same theory as that used in rating a building.

**Other Types of Schedules.**—The nonfireproof mercantile schedule illustrates the method used in order to determine the specific rate of a mercantile nonfireproof building. There are several variations of the universal schedule used, the most important of which are the following :

1. Nonfireproof manufacturing schedule.
2. Fireproof mercantile schedule.
3. Fireproof manufacturing schedule.
4. Sprinkler schedule.

**Results of Schedules.**—Although the various schedules are not absolutely scientific, they have for a long time given some satisfaction to the insuring public for the following reasons :

**FIRE PREVENTION.**—The reduction in rates for fire appliances and fire resistive buildings has caused a great increase in the use of such appliances and the construction of such buildings.

**FAIR RATE.**—Since each risk is measured separately, the rate charged is a fair measure of the cost of protecting that particular risk against the hazard assumed by the insurance company.

**ELIMINATION OF DISCRIMINATION.**—Since the rates are no longer made upon guesswork or influenced by competition between underwriters, but are computed and promulgated by central bureaus, they are applied, according to the schedules, equally to all risks of the same class.

### QUESTIONS AND PROBLEMS

1. What are the perils covered by a fire insurance policy?
2. Discuss the company's liability under the following circumstances:
  - (a) A \$5,000 fire insurance policy was issued to *Z*, who was a manufacturer of steel goods. *Z* sold his business to *X*. *X* subsequently suffered a loss of \$1,000 through fire.
  - (b) *M* insured his merchandise against fire for a period of three years. During the policy period, *M* died. Shortly thereafter the merchandise was destroyed by fire.
  - (c) *S* insured his household goods against fire for \$1,000. One night, while a guest was at the home, a fire occurred, causing a loss of \$100 to the guest's goods and \$50 to *S*'s goods.
  - (d) *A* and *B*, partners, obtained a \$5,000 fire insurance policy. Subsequently, *B* sold his interest to *C*. Thereafter the partnership suffered a fire loss of \$1,000.
  - (e) *P* stored merchandise in *R*'s warehouse. *R* obtained a \$100,000 fire insurance policy covering all merchandise in the warehouse. Merchandise in the warehouse, belonging to *P* was burned, and *P* suffered a loss of \$1,000. *P*'s goods were not specifically mentioned in *R*'s policy.
  - (f) *V* insured his merchandise at 120 East 28th Street for \$10,000. A fire occurred at that address, causing \$2,000 damage. *V* removed the balance of the goods to 150 East 90th Street. Ten days later *V* suffered a \$4,000 fire loss at 150 East 90th Street.
3.
  - (a) Describe some of the articles which are not permanently attached to the building covered in the building form.
  - (b) Describe some of the articles covered under the household furniture form.
  - (c) *Q* insured his stock and fixtures for \$10,000. The following losses occurred: merchandise, \$1,000; cost of labor on merchandise, \$250; fixtures, \$500; wearing apparel of employees, \$100; improvements and betterments, \$1,500. What is the company's liability?
4. Discuss the insured's rights in the following instances:
  - (a) *M* purchased a \$6,000 fire insurance policy effective January 10, 1950, for one year. On January 10, 1951, at 2 P.M., *M* suffered an \$800 fire loss.

- (b) *X* purchased a \$5,000 fire insurance policy covering merchandise in his factory. One morning when he opened his factory he found that, due to a defective condition, smoke from a chimney had entered the factory and damaged goods, causing a loss of \$1,000.
  - (c) *R* insured his household goods against fire for \$2,000. His wife commenced to manufacture some dresses for retail sale. One evening when no one was at home, a fire occurred in some rubbish and caused \$500 damage.
  - (d) *N* obtained a \$2,000 fire insurance policy covering his merchandise. On the 15th of the next month, *N* purchased a policy from another company for \$2,500. As a result of a fire in an adjoining building, *N*'s goods were damaged to the extent of \$4,000.
  - (e) On April 10 *Y* purchased a fire insurance policy effective April 10, covering his building. On April 20 *Y* closed his home to July 21. On August 1 he again closed his home, expecting to travel for a month. On August 20 a fire occurred, damaging the property to the extent of \$2,000.
  - (f) *L* borrowed \$1,000 from a bank and assigned to the bank a \$5,000 fire insurance policy covering his merchandise. Subsequently, *L*'s goods were damaged \$1,000 by fire.
  - (g) *P* obtained a \$5,000 fire insurance policy from the *B Insurance Company*. *P* filed a claim of \$10,000 for damages to merchandise by fire with *B*. The latter's investigators discovered that the actual value of the goods was \$500.
  - (h) *Q*'s building was destroyed by order of the fire department in order to prevent a fire in an adjoining building from spreading and causing a conflagration in the neighborhood. The loss amounted to \$10,000. *Q* carried the same amount of insurance.
  - (i) *F* obtained a \$10,000 fire insurance policy. As a result of fire on *F*'s premises, goods were damaged to the extent of \$2,500. In addition, thieves at the time of the fire stole \$1,500 worth of merchandise.
  - (j) *Y* purchased a \$10,000 fire insurance policy on his building. *Y* carelessly disposed of a lighted match, causing an explosion. The resulting damage amounted to \$5,000.
  - (k) *G*, who was a retail merchant, purchased a \$5,000 fire insurance policy. Three men engaged in a fight in his store, and as a result a fire broke out, causing damage to the extent of \$2,500.
  - (l) *X* insured his merchandise against fire. A fire occurred, damaging goods to the extent of \$1,000. After the fire was over, *X* left the goods unguarded. During the evening another fire started, causing \$3,000 additional damage to the goods.
5. (a) *R* suffered a fire loss on January 15 and did not notify the company until two months later. Discuss *R*'s rights to collect the loss.
- (b) What are the duties of the insured after the occurrence of a fire loss?

6. Discuss the company's liability under the following circumstances :
  - (a) *M* insured his merchandise against fire for \$5,000. Later, a loss amounting to \$1,000 was caused by fire. The investigators of the insurance company were unable to verify this value. The insurance company asked *M* to appear at their office for examination and produce his books of account. *M* refused to do so.
  - (b) *P* insured his merchandise for \$5,000 against fire. Subsequently *P* suffered a fire loss. He filed a proof of loss, claiming \$2,000. The company claimed the loss was \$1,200. *P* commenced suit.
  - (c) After a loss, the insured and the company were unable to agree on the amount of the loss. Two appraisers were chosen, respectively, by the insured and the company. However, for 20 days the two appraisers were unable to decide on an umpire.
  - (d) After loss, appraisers and umpire were appointed. The two appraisers agreed on the value of the various articles, except one article. The value claimed by the insured's appraiser was \$1,800; by the company's appraiser, \$1,500; and by the umpire, \$1,500.
  - (e) The insurance company and the insured, after loss, agreed that the amount was \$3,000. The loss occurred on January 10, and the agreement was reached on February 1. Proof of loss was filed February 2. The insured demanded immediate payment.
7. *Y* purchased a \$15,000 fire insurance policy on his merchandise for one year from January 15. On January 30, *Y* suffered a \$3,000 fire loss which the insurance company paid. Another fire loss amounting to \$14,000 took place on April 15. What is the company's liability?
8. *F* purchased a \$6,000 fire insurance policy to cover his property for three years from January 20. A \$1,000 fire loss was suffered on September 1, but the company denied liability. On December 1, *F* commenced suit against the insurance company. What are *F*'s rights?
9. (a) *Q* insured his goods against fire with the following companies: *Company B*, \$5,000; *Company C*, \$10,000; *Company D*, \$15,000. *Q* suffered a \$12,000 fire loss. Discuss the liability of each company, assuming that *Company D* was insolvent.
  - (b) Suppose *X* asked his broker to place his insurance in various companies. The broker divided the coverage as follows; *Company A* \$12,000; *Company B* \$16,000; *Company C* \$12,000. After *X* suffered a loss of \$7,000 he discovered that *Company C* was nonexistent. What is the liability of *Companies A* and *B*?
10. Explain the company's liability for the following :
  - (a) *R* purchased a \$5,000 fire insurance policy covering his merchandise. He suffered a \$1,000 fire loss on property which he had contracted to sell. If he could have made delivery, he would have made a profit of \$250.
  - (b) Suppose the loss occurred on January 15, and proof of loss was filed on January 30. The company desired to replace the property on March 15 instead of paying the amount of the claim.

- (c) *S* insured his building for \$10,000. Plumbing was damaged by fire, causing a \$500 loss after considering the depreciated value of the plumbing. Due to ordinance, however, the old type of plumbing in the building could not be replaced. The type of plumbing required by ordinance cost \$1,000.
11. (a) After *B* had received his fire insurance policy covering merchandise for \$5,000, he requested an endorsement also covering money on his premises. Discuss the availability of the endorsement.
- (b) *D* insured his household furniture for \$2,000. He advised the agent that he was selling clothing from his home. Before the policy was issued, *D* suffered a \$1,000 fire loss. The company denied liability, due to increase of hazard on account of business operations at *D*'s premises. Discuss the company's liability.
12. (a) *X* paid a premium of \$25 for a one-year fire insurance policy. The policy was effective on July 10, 1951. The insured notified the company that he desired to cancel the policy and return the policy on August 10, 1951. What is the return premium that must be paid by the insurance company?
- (b) Suppose the company canceled the policy?
- (c) *Q* obtained a fire insurance policy for three years, effective July 10, 1947, for which he paid a premium of \$120. On August 9 the company sent a notice of cancellation to the insured, but did not return the unearned premium. The cancellation notice was received by the insured on August 11. Discuss the company's liability for a \$1,000 fire loss which *Q* suffered on August 20.
- (d) *R* insured his merchandise for \$20,000. At the end of three months, *R* desired to reduce his policy to \$15,000. Explain whether *R* would be charged short rates for the amount of the reduction.
13. (a) *A* insured his building for \$5,000 against fire, effective June 1, 1951. As *A* did not pay his premium, the insurance company sent him a cancellation notice on August 1, which he received on August 4. The policy contained a loss payable clause to *B*, a mortgagee, who had a \$5,000 mortgage on the property. On August 1 the company also sent a cancellation notice to *B*, which the mortgagee received on August 4. Discuss the company's liability for a \$1,000 fire loss on August 11.
- (b) In the above problem, suppose that the company desired to pay the balance of the mortgage to the mortgagee. What are the rights of the company?
- (c) *P* insured his building for \$15,000 against fire, with a loss payable clause to the mortgagee, *N*. A fire occurred on January 15, and the insured notified the company. *P* did not file his proof of loss. What are the mortgagee's rights?

- (d) Suppose the loss in problem (c) was due to the wilful act of the owner?
14. What is the company's liability for the following:
- (a) On January 15 Broker *B* obtained a \$5,000 binder covering *A*'s property, and on March 20 he received a notice that the company declined to continue the insurance. At 9 A.M. on March 21 a fire resulted in a \$1,000 loss.
  - (b) Suppose the binder in the previous problem contained the name of *C* as mortgagee on the property.
  - (c) A broker obtained a \$10,000 binder covering *C*'s property on January 20. On February 28 a fire occurred, causing damage to the extent of \$20,000.
15. (a) *X* insured his building for \$50,000 with a valued clause. What is the company's liability for the following:
- (1) Suppose the entire building was destroyed, and the damage was \$45,000.
  - (2) A fire caused \$20,000 damage, which represented approximately 60% of the replacement value of the property.
- (b) What are the advantages and disadvantages of a valued policy?
- (c) What type of property should be insured under a valued basis?
16. What type policy would you recommend for the following:
- (a) *P* owns ten buildings in one city.
  - (b) *N* is a manufacturer and operates in four adjoining buildings.
  - (c) *R* is a manufacturer of clothing and sends goods to various contractors to be manufactured for *R*.
  - (d) *D* operates a chain of retail stores.
17. Discuss the company's liability for the following: *A*'s building was subject to a \$5,000 mortgage held by *B*. *A* obtained a \$10,000 fire insurance policy with *Company C* on the building, with a loss payable clause to *B*.
- (a) The company sent *A* a cancellation notice which was received on June 10. On June 16 a fire caused \$5,000 damage to the building.
  - (b) A fire broke out in the building, causing \$1,000 damages. *A* demanded that the company's draft be paid to him, but the company paid *B*.
  - (c) *A* also obtained a \$10,000 fire insurance policy from *Company D*. Both policies contained full contribution mortgagee clauses. A fire in the building caused \$2,500 damages. After the loss *Company D* became insolvent, and it was estimated that there would be no funds available to meet any claims.
  - (d) Suppose in the previous problem there was a noncontribution mortgagee clause attached to policy issued by *Company C*, and no reference was made to the mortgagee in the policy issued by *Company D*.

18. (a) Explain the reason for the use of coinsurance.  
 (b) Indicate the liability of the fire insurance companies on the following properties which are covered by policies carrying the 90% coinsurance clause :

Replacement Value of Property	Insurance Carried	Loss
\$ 75,000	\$ 15,000	\$ 7,500
200,000	180,000	40,000
450,000	45,000	427,500

- (c) Z had a \$40,000 policy subject to the 80% coinsurance clause covering merchandise. He suffered a \$1,500 fire loss. He claimed that the value of the entire merchandise before the fire was \$48,000. He did not prepare a special inventory, however, but he stated the value of the property which was not damaged by fire. Discuss the company's liability.
19. Indicate the liability of the fire insurance company for the following loss with the prorata distribution clause and the 90% coinsurance clause if the amount of coverage was \$360,000 : Building No. 1—stock \$160,000, loss \$9,000 ; No. 2—stock \$200,000 ; No. 3—stock \$120,000.
20. Determine the liability of the various companies for the following loss :

Insurance Company	Property	Replacement Value	Amount of Insurance	Coinsurance	Loss
Company A	Stock	\$100,000	\$ 50,000	80%	\$24,000
Company B	Machinery	<u>60,000</u>	40,000	80%	<u>36,000</u>
			<u>120,000</u>	100%	
Company C	Stock and Machinery	\$160,000	<u>\$210,000</u>		\$60,000

21. R insured an apartment house for \$50,000, subject to the building form. What is the company's liability under the following circumstances :
- (a) The following amounts were claimed due to a fire loss : building, \$20,000 ; fees for architectural plans, \$300 ; removal of debris, \$400 ; rugs, \$50 ; foundation, \$1,000.
- (b) During the policy period, R altered his building by adding an extra floor. In the course of repairs, the building was damaged by fire.
- (c) The building was unoccupied for four months when the fire occurred.
- (d) Due to a short circuit, electric appliances were damaged to the amount of \$100.
- (e) A fire occurred, and the loss was \$200. Subsequently, the building was destroyed by fire.
22. M owned ten buildings. What method can be used to avoid description of each building in the building form attached to M's fire insurance policies ?
23. H insured his stock and fixtures for \$20,000. Explain the company's liability for the following :
- (a) A machine was damaged and the loss was \$1,200. H had purchased the machine on the installment plan, and had paid \$200 on account.

- (b) Merchandise valued at \$20,000, on *H*'s premises, belonging to *C*, was destroyed by fire. *C* had obtained a \$15,000 insurance policy covering his goods while on *H*'s premises.
  - (c) *H* occupied the third floor of the building. *H*'s goods were damaged by fire while being transported in the building elevator.
  - (d) Goods were damaged while on the sidewalk outside the building of which *H* was a tenant.
  - (e) Goods belonging to *H* were in a freight car on a sidetrack near *H*'s premises. The goods were damaged by fire.
  - (f) Goods valued at \$500 were damaged. The packages containing the goods were marked with a special brand. The brand marks were also damaged.
  - (g) During the period of insurance, manufacturing operations were changed. The new operations did not involve increased hazard either to employees or property. A fire caused \$3,000 loss.
  - (h) The building in which the merchandise was kept had a platform connected to the outside of the building. One day while goods were being unloaded on the platform, a fire occurred, damaging the goods on the platform.
  - (i) *H* had \$2,000 worth of stock belonging to *D* on his premises. *H* was processing the stock for *D* when it burned. *D* had no insurance on his property.
24. *L* insured his dwelling against fire for \$5,000, subject to the dwelling form. *L*'s house contained six rooms. He rented two rooms to boarders. A fire occurred causing \$1,000 loss to the building; \$1,000 to porch furniture; \$100 to clothing belonging to a boarder; and \$150 to *L*'s clothing. What is the company's liability?
25. *G* insured his household furniture for \$2,000, subject to the household furniture form. Discuss the company's liability for the following:
- (a) *G* sent two chairs to an upholsterer for repairs. A fire occurred at the premises of the upholsterer, and *G* suffered a \$240 loss.
  - (b) Suppose *G*'s chairs were in a storage warehouse when they burned.
  - (c) As a result of a fire, a radio valued at \$75 was destroyed. The radio had been purchased on credit, and *G* had paid \$25 on account.
26. (a) What are the differences between the household furniture form and dwelling form, and the combined dwelling and contents form?
- (b) *A* purchased a \$150,000 fire insurance policy with a \$5,000 deductible clause. *A* suffered a loss of \$8,000 and recovered \$4,000 salvage. What is the company's liability?
27. *P*'s \$25,000 fire insurance policy was subject to the inherent hazard explosion clause. Explain the company's liability for the following:
- (a) A barrel of high explosives burst, resulting in \$1,000 damage but no fire occurred.
  - (b) A boiler exploded causing \$10,000 damage.
  - (c) An explosion occurred in the firebox of the furnace due to an accumulation of gases, causing \$2,500 damage to the building.

28. *M* insured his farm property for \$6,000. A fire occurred, and various fire engines from a near-by village came to the farm and put out the fire. *M* received a bill for \$250 from the village. What is the company's liability under the fire insurance policy?
29. The *X School* used a motion picture for educational purposes. A fire occurred, due to the operation of the machine. Inflammable film was used. What is the company's liability?
30. *V* purchased a \$50,000 fire insurance policy on merchandise, and a \$100,000 policy on buildings, both with extended coverage and vandalism and malicious mischief coverage. Discuss company's responsibility for:
- (a) As a result of a windstorm, the following occurred:
    - (1) Water driven by wind entered *V*'s premises and damaged merchandise. Investigation disclosed that, at the time, a window was open through which the wind had entered.
    - (2) The sprinkler equipment was damaged. It commenced to operate and damaged the merchandise.
    - (3) A building which was in process of construction was damaged.
    - (4) Due solely to an accumulation of snow, the roof of *V*'s premises collapsed, causing a loss of \$1,000.
  - (b) (1) Due to an explosion of a boiler outside *V*'s building, *V* suffered a loss of \$2,000.
    - (2) Because of a gas explosion the foundation of the building was damaged, causing \$2,500 loss.
  - (c) During the course of a strike the following occurred:
    - (1) Strikers entered and damaged merchandise valued at \$5,000.
    - (2) The strikers prevented the operation of a boiler, and due to lack of heat, merchandise was damaged, causing \$2,500 loss.
    - (3) *V* was unable to deliver his merchandise, and therefore orders were canceled resulting in \$5,000 loss.
  - (d) (1) Following the crash of an aircraft, *V*'s building was damaged, causing \$5,000 loss. His fences were also damaged, causing \$500 loss.
    - (2) A missile fell from an aircraft, causing \$500 damage to *V*'s merchandise.
    - (3) *V*'s truck was backed against *V*'s garage, causing \$500 loss to the garage.
    - (4) A truck hit a stone, which stone flew into *V*'s building and damaged a machine.
  - (e) (1) As a result of the accumulation of soot, *V* claimed damage of \$500 to his merchandise.
    - (2) Due to the faulty operation of a steam boiler in the building, smoke caused \$1,200 damage.
    - (3) Suppose the damage had been caused by a small portable gas heater kept in *V*'s office.
    - (4) Suppose the loss was due to smoke from a chimney on the adjoining premises.

- (f) (1) Vandals entered  $V$ 's premises and caused the following damage: plate glass, \$500; window glass, \$50; glass bricks, \$100; and merchandise, \$1,500.
- (2) As a result of the action of the vandals,  $V$  was unable to deliver his merchandise and suffered \$500 loss.
- (3) Vandals removed water from a steam boiler and thus caused a boiler explosion with a loss of \$10,000 to  $V$ 's merchandise.
- (4)  $V$  had closed his premises. Vandals entered the premises and damaged merchandise to the amount of \$1,000. Investigation disclosed that  $V$ 's premises had been closed for 40 days.
- (g)  $A$  had a burglary and robbery endorsement attached to his household fire policy for \$500. What is the company's liability in the following circumstances:
- (1) A thief opened the door of  $A$ 's house and stole some clothing valued at \$100.
- (2) While  $A$  was entertaining some guests, a robber entered  $A$ 's home and took the following:  $A$ 's wallet valued at \$10 and containing \$65 in cash; a ring worth \$75, and a watch valued at \$40 from  $A$ 's wife; silverware belonging to  $A$  worth \$60; a camera worth \$70 belonging to  $B$ ,  $A$ 's guest. Two weeks later a burglar broke into  $A$ 's home and stole \$200 worth of clothing and caused damages of \$100 to furniture.
- (3) While on a business trip in the United States,  $A$  was held up and the robber took his valise and its contents.  $A$  claimed a loss of \$150. Of this amount, \$125 was for the loss of business samples which  $A$  was carrying.
- (h)  $A$  had a \$15,000 policy covering his private residence with an all-risk endorsement. Discuss the company's liability for the following:
- (1) On account of faulty design, a wall fell causing damage to the building amounting to \$500.
- (2) By an earthquake, the building suffered a \$1,000 loss.
- (3) Termites caused the building to collapse.
- (4) An explosion of a steam boiler on the premises caused damage amounting to \$1,000.
- (5) A flood caused \$4,000 damage to the building.
- (i) Suppose in problem 30(h), the policy was subject to the additional Extended Coverage Endorsement.
31.  $P$ 's \$5,000 fire insurance policy contained an unoccupied building endorsement. Thereafter  $P$  let the building, and the tenant commenced manufacturing electric appliances. During the tenancy, fire caused \$3,000 damage to  $P$ 's building. What is the company's liability?
32.  $N$  operated a lumberyard and a woodworking plant adjoining his lumberyard.  $N$  carried \$150,000 insurance. A fire occurred in the lumberyard causing \$25,000 loss. The firemen were unable to enter the yard, as there was no space between the yard and the woodworking plant. What is the company's liability?

33. *F* insured Building No. 1 for \$50,000, and Building No. 2 for \$100,000, in a single policy. Building No. 1 was destroyed by fire. At the time of the loss, *F* was using gasoline in violation of a warranty in Building No. 2. What is the company's liability?
34. On June 1, 1951, *Q* insured his merchandise for \$50,000, subject to the inventory and iron safe clause. Discuss the company's liability if:
- Q* suffered a \$5,000 loss on July 2, 1951. Investigation disclosed that *Q* had taken an inventory of his merchandise on May 5, 1951.
  - At the time of loss, the books of account were destroyed by the fire. The books were kept in a desk in *Q*'s office. The loss occurred after the premises were closed.
35. *G*'s \$5,000 fire insurance policy contained a removal of goods endorsement. The policy issued covered *G*'s goods at 150 East 20th Street, effective January 15. On January 20 *G* commenced moving his goods to new premises at 18 East 47th Street. After \$1,500 worth of goods had been moved into the new premises, a fire caused a \$1,000 loss at 18 East 47th Street. What is the company's liability if the total value of *G*'s goods was \$6,000 and his policy was subject to 80% coinsurance?
36. (a) *M*'s \$50,000 fire insurance policy, effective January 15, contained an automatic sprinkler clause. On January 20 it was necessary to repair the system. A \$1,000 fire loss occurred while the system was being repaired. Discuss the company's liability.
- (b) Suppose that the sprinkler system had broken and that repairs were being made.
37. *P*'s \$50,000 fire insurance policy contained a standpipe equipment clause. *P* owned the building in which he kept his stock of goods. During the policy period, *P* changed the equipment without notifying the bureau of which the insurance company was a member. Later, a fire occurred, causing \$5,000 loss. What is the company's liability?
38. *R*'s \$50,000 fire insurance policy contained a watchman and clock clause. Fire broke out during the course of the night, after the premises had been closed. The investigators of the insurance company discovered that at the time of the fire the watchman had left the premises.
39. State the company's liability for the following loss:  
*N* was a building contractor and obtained a builder's risk policy.
- During the course of construction, tools were damaged by fire.
  - The building erected was to be used for a printing plant. After the building had been completed, machinery was being installed and tested. Prior to the completion of this part of the work, fire broke out.
  - During the course of construction, the foundation was damaged by fire, causing \$5,000 loss.
  - N* reported a valuation of \$40,000 for March 1. A loss occurred on April 10 amounting to \$10,000. The cost of the building on March 1 was \$50,000.

40. (a) What is the difference between the builder's risk reporting form and the builder's risk completed form?
- (b) An original estimate made for the cost of a building was \$50,000. The owner purchased a builder's risk completed form for that amount. During the course of construction, plans were changed, thus producing an ultimate cost of \$60,000. A fire occurred and there was a loss of \$24,000. What is the company's liability?
41. (a) *S* insured his property for \$60,000 with a depreciation endorsement. As a result of a loss, the property was damaged. The loss was estimated to be \$10,000. However, to replace the damaged property new would cost \$12,000. What is the company's liability?
- (b) Suppose *S* decided not to repair the damaged property.
- (c) Suppose *S* decided to demolish the entire property, and that \$3,000 was spent for the cost of demolition.
- (d) *T* insured his building for \$100,000 with a demolition endorsement. The property was damaged to the extent of \$70,000 by fire. The city ordered the demolition of the building. What is the company's liability?
- (e) *A*'s building was insured against fire for \$100,000 by *Company B*, with a demolition clause. He also had a \$50,000 policy with *Company C*, but the policy did not contain any demolition coverage. A fire in the building caused a \$90,000 loss. Due to ordinance, however, it was impossible to repair the building, and it was therefore necessary to demolish the remaining portion of the building, valued at \$45,000. What is *Company B*'s liability to *A*? Has *A* any rights against *Company C*?
- (f) Suppose, in problem (e), due to ordinance, there was an increased cost of \$40,000 to replace *A*'s building?
42. The *Y Bank* had a \$1,000,000 fire insurance policy with an errors and omissions form in *Company A*. State the company's liability under the following circumstances:
- (a) One of the buildings on which the bank held a mortgage was damaged by fire, causing a \$5,000 loss. The mortgagee was unable to collect this loss because the insurance company which issued the policy to the owner had a valid defense against the owner on account of the incorrect description of the building.
- (b) The effective date of the policy was January 15. The auditor of the bank discovered that there was no insurance on January 16 on the property located at 150 East 50th Street, on which the bank had a \$15,000 mortgage. On January 20 a fire occurred, damaging the building and causing a \$20,000 loss.
- (c) An employee of the bank accepted a \$4,000 fire insurance policy covering property upon which the bank had loaned \$6,000. Subsequently, a fire in the building caused a \$5,000 loss.
- (d) Through error, the mortgagee had accepted a \$2,000 policy from the *B Insurance Company* covering a building on which the mortgage was \$5,000. Fire damaged the building, causing \$4,000 loss.

The *B Insurance Company* subsequently became insolvent and no assets were available to pay the claims.

- (e) In the previous problem, suppose that the owner of the building had \$6,000 in other insurance which was not subject to a loss payable clause in favor of the mortgagee.
  - (f) Through error in failing to obtain insurance on a building, the bank suffered a \$4,000 loss. After the loss the bank furnished the insurance company with a report indicating that the total net amount of all outstanding mortgage loans within the territory described by the policy at the time of the loss amounted to \$20,000,000.
  - (g) The bank was notified by the insurance company that the owner failed to pay his premium on a fire insurance policy for \$5,000. Although requested, the bank, as mortgagee, did not pay the premium. Subsequently the building was damaged by fire, causing \$1,000 loss.
43. State the company's liability under the following circumstances :
- (a) *M*, who was an importer, obtained a \$10,000 fire insurance policy with a customs duty endorsement. By reason of fire, *M* suffered a \$5,000 loss on his goods in the warehouse. The sound value of *M*'s merchandise in the warehouse was \$20,000. The duty payable to the government on the destroyed merchandise was \$4,000.
  - (b) Suppose *M* filed an application of abatement of duties.
  - (c) Suppose *M* desired to move the damaged merchandise from the bonded warehouse prior to the liquidation of the application of abatement.
44. *Z*, who was a furrier, purchased \$20,000 worth of insurance covering his own stock and stock of customers while held in storage. *Z* received a coat from a customer for storage, and gave the customer a receipt with a declared value of \$100. However, the actual value was \$1,500. The customer's fur coat was destroyed by fire. What is the company's liability?
45. *A*, who was a warehouseman, purchased legal liability fire insurance for \$100,000. Discuss the company's liability for the following :
- (a) Fire broke out, causing \$10,000 damage to *B*'s goods. *B* demanded payment from *A*. However, *A* denied liability.
  - (b) The insurance company paid a claim of \$20,000. Thereafter there was another fire claim amounting to \$90,000.
  - (c) *A* agreed with *B* that if *B* would place merchandise in *A*'s warehouse, *A* would be responsible for any fire loss. While *B*'s merchandise was in *A*'s warehouse, a fire occurred, damaging *B*'s merchandise.
46. State the company's liability under the following circumstances :
- (a) *R*, a clothing manufacturer, has purchased a \$50,000 fire insurance policy. Fire damaged 200 coats having a replacement value of \$2,000. Since the manufacturer had no additional cloth available

- to make similar coats, he had to sell the vests and pants at a loss of \$1,000.
- (b) Suppose the policy was written subject to the garment manufacturing endorsement.
- (c) *R* insured merchandise in a warehouse against fire for \$25,000. The warehouse was artificially cooled by apparatus installed in an adjoining building. As a result of fire, the cooling apparatus was damaged. This, in turn, caused the total destruction of *R*'s merchandise.
47. *Q* purchased a \$5,000 insurance policy with an unearned premium endorsement covering his building for three years from January 15. One year later, *Q* was reimbursed by the company for a \$1,000 loss. *Q* insisted that the original amount of insurance be maintained until the expiration of the policy, but he refused to pay an additional premium. State the rights of the insured to have his original insurance maintained, and of the company to an extra premium for the amount of the loss.
48. (a) *F* insured his six-apartment building against a rental loss due to fire. The rental for each apartment was \$100. As the result of a fire, two apartments could not be used. At the time of the fire, one of the two damaged apartments was not rented. It had been vacant for four months before the fire. What is the company's liability if three months were required to make the apartments available for use by tenants? The rents were insured under a rented or vacant form policy.
- (b) Describe the method which may be used to determine the amount of rental insurance to be purchased.
- (c) *S* owned several buildings in the country which he rented from June 1 to September 1 every year. He purchased rental insurance for each building under a seasonal lease form for \$150 a month for the period during which he normally rents his buildings. Explain the company's liability under the following circumstances:
- (1) A building was damaged by fire on April 1, and the repairs were completed by May 15.
  - (2) Another building was damaged by fire on May 16 and repairs were completed by July 1. The building was then rented for the remainder of the season for \$100.
- (d) What method is used for insuring property rented on a percentage of income basis?
49. Discuss the company's liability under a leasehold insurance for the following:
- (a) *M* was a lessee of a building under a 20-year lease at a rental of \$250 per month. *M*'s lease contained a fire clause which provided that the lease would terminate if the building was rendered untenantable by fire. After *M* had used the building for ten years, a

fire made the building untenable. Similar buildings in the locality were rented at \$330 per month at the time.

- (b) *N*, a lessee in possession of premises, under a lease that had five years to run at a rental of \$250 a month, sublet the building at \$400 a month and paid maintenance and operating charges of \$25 per month. *N* purchased leasehold insurance. *N*'s lease was terminated at the end of the first year by fire which rendered the building untenable. A fire clause was included in the lease agreement. Money is worth 4%, compounded semiannually.
  - (c) Suppose the building was repaired after four months, and *N* was then permitted to use the building again at the same rental that he had paid prior to the fire.
  - (d) Subsequent to the attachment of the leasehold insurance, *N*'s lease was modified to provide that the lease was terminated if any fire occurred in the building. The building was damaged by fire.
50. Discuss the company's liability under the various profits and commission insurance forms:
- (a) *Z* had completed the manufacture of goods at a cost of \$1,000, which he could have sold for \$1,200. In addition, he had completed other goods at a cost of \$1,500, which, in the ordinary course of business, he expected to sell for \$1,800. Two lots were destroyed by fire. The percentage of fire damage to entire stock was 25%.
  - (b) Goods in course of process were damaged by fire, causing a loss of \$3,500. The goods, if completed, could have been sold at a profit of 15%.
51. Discuss the company's liability in the following instances:
- (a) *Y*, who was a dealer in grain, carried \$120,000 fire insurance. The grain was purchased by *Y* for \$1.60 per bushel. *Y* suffered a loss of 1,000 bushels due to fire. At the time of the loss, the market value was \$1.75. The market value of all of *Y*'s grain, on the date of the loss, was \$200,000. The policy was subject to the 80% coinsurance clause.
  - (b) The *D* retail store insured merchandise against fire for \$25,000. *D* suffered a fire loss of merchandise valued at \$4,000. In addition, several articles of clothing, which had been sold but not yet delivered, were destroyed by fire. The value of the clothing sold but not delivered was \$600, and the cost price of these articles was \$480.
52. (a) *N*, a manufacturer, insured his merchandise and machinery for \$500,000. He suffered a fire loss amounting to \$100,000. He was unable to commence operations for a period of six months. State the items of expense that would continue and for which there would be no reimbursement under the fire insurance policy.
- (b) What are the various business interruption forms?
  - (c) *A Incorporated*, a retail supermarket, purchased business interruption insurance under the coinsurance form for mercantile risks. *A* suffered a fire loss during the year, causing complete suspension

of the business for two months. An analysis of the books of *A Incorporated* indicated that if no fire had occurred, net profits for the year would have been \$50,000, and fixed charges and expenses that would have been earned would have amounted to \$28,000, and the insured's ordinary pay roll for the year, which amounted to \$12,000 spread out equally over the entire year. Explain the company's liability if *A's* policy was written for \$65,000 covering loss of profits and fixed expenses, and for \$2,400 covering ordinary pay roll for 90 days.

- (d) What is the company's liability in the above problem if *A Incorporated* spent an extra \$2,000 for overtime to repair the store, thus making it possible to reopen a half-month earlier? What if *A Incorporated* spent \$4,000 for the overtime?
- (e) After *A Incorporated* had completed the repair of the supermarket, an additional fifteen days were required to replace the stock destroyed by fire.
- (f) Suppose in the above problem, on account of a shortage of supplies in the wholesale market, 35 days were required to restore the stock.
- (g) *B* was a manufacturer of toys. He carried business interruption insurance on his building, machinery, and stock. *B's* plant was closed for 120 days due to fire. When the plant was ready for operation, work could not commence because of a shortage of raw materials which had been destroyed by the fire. Prior to the fire, *B* had sufficient raw materials to continue operations for 40 days. New stock would require 40 days from the date of the fire for replacement. What is the period during which the business interruption policy would cover?
- (h) What if in the above problem the raw stock could not be replaced for 165 days after the date of the fire?
- (i) A fire destroyed *C's* machinery. *C* had similar machinery in a warehouse. The additional machinery could be obtained from the warehouse and installed in *C's* plant within 10 days. *C*, however, refused to move the machinery from the warehouse, and purchased other machinery. He commenced to operate 20 days after the fire. What is the period for which the company is liable under a business interruption policy?
- (j) *D's* plant, which adjoined *A's* plant, was heavily damaged by fire. However there was no damage to *A's* plant. *A* and *D* carried business interruption insurance policies. The officials of the city refused to permit *A* to operate his plant until 25 days after the fire. In addition, after *D's* plant was ready for operation, the city officials would not permit the use of *D's* plant until inspected. *D* was, thereafter, unable to use his plant for five days. For what period of time can *A* and *D* recover under their respective policies?
- (k) In addition to a claim of \$7,000 for a business interruption loss, a manufacturer claimed a loss of \$2,000 for profits, due to the de-

struction of finished goods at the time of the loss. He also claimed a loss of \$500 for the additional time required to restore his finished stock. What is the company's liability?

- (l) An analysis of *R*'s books, as of the first of the year, showed the following estimates for the year: profits, \$60,000; continuing expenses, \$50,000; other expenses, \$40,000; ordinary labor, \$100,000. How much insurance should *R* purchase to meet the requirements of the 80% coinsurance form?
- (m) Suppose *R* desired to purchase a gross earnings form with a 50% coinsurance clause.
- (n) *I* purchased \$90,000 business interruption insurance with an agreed amount clause. *I* suffered a loss of \$12,000. An analysis of *I*'s books indicated that he should have purchased \$100,000 insurance. What is the company's liability?
- (o) What requirements must be met by an insured in order to obtain an agreed amount clause for business interruption insurance?
- (p) *N* purchased \$150,000 business interruption insurance. At the end of the year, *N*'s record indicated that he should have purchased only \$120,000 insurance. Explain under what conditions *N* would be entitled to any return premium.
- (q) Due to fire, *T*'s plant was closed. There was no exact indication when the plant could be repaired and ready for operation. *T* and his insurance company agreed, however, that the plant would be out of operation for more than 200 days. *T* demanded payment for a 200-day loss immediately. What are *T*'s rights under his business interruption policy?
- (r) *G* was a manufacturer of cotton dresses. He contracted with the *B Cotton Mill* to purchase *B*'s entire output. *G* purchased contingent business interruption insurance for \$150,000, on *B*'s mill. Because of a fire in *B*'s plant, *G* could not operate. What are *G*'s rights?
- (s) *D* was a manufacturer of radios. Following an expected increase in business, *D* arranged for the erection of an additional plant. How should the amount of business interruption insurance be determined for the new plant?
- (t) Suppose that the additional plant was damaged by fire during the course of construction, and that completion was delayed 20 days. How would the amount of loss for the new plant be determined?
- (u) *F* obtained power for his plant from the *B Utility Company*. *F* purchased \$150,000 business interruption insurance gross earnings form against inability to operate, due to fire at the public utility company. A fire occurred at the public utility company, and *F* could not operate his business. *F* showed a loss of \$5,000 of profits and continuing expenses because he could not operate. Explain the company's liability.

53. (a) *M*, who was a newspaper publisher, obtained a \$120,000 extra expense form on January 15, 1950, for a period of one year. On December 15, 1950, the machinery in *M*'s plant was damaged by fire. *M* arranged with another newspaper concern to continue publication of his newspaper. He was again able to use his plant on February 15, 1951. An analysis of his books indicated that extra expenses because of the fire were \$25,000. Discuss the company's liability if a percentage limit of liability was 40% for the first month and 10% per month thereafter was specified in the policy.
- (b) What is the company's liability if *M* claimed \$2,500 for loss of profits from reduction of business resulting from the fire?
- (c) *Z* paid \$2,800 per annum rent for his home. He purchased \$1,800 insurance to cover additional living expenses in case of fire. On account of a fire loss, *Z* temporarily had to move to a hotel for 20 days. Moving expenses and hotel charges amounted to \$600. What is the company's liability?
54. (a) The estimated receipts of the *A School* were \$120,000 for the school year. Estimated expenses for teachers, who were under contract, were \$80,000. Operating expenses were estimated \$20,000, of which expenses \$10,000 could be discontinued. What is the amount of tuition fees insurance that *A School* should purchase?
- (b) (1) The *B School* obtained a policy protecting itself against loss of tuition fees due to fire. During the summer the school building was destroyed. The contractor stated that the new building would be ready one month after the school term would have opened. The records showed that in the previous year the income from tuition fees was \$60,000, and that teaching and other incidental expenses that would continue were \$50,000. What is the company's liability?
- (2) Suppose a fire occurred during the school year, and the insurance company requested the officers of the school to use an old building on the grounds of the school for instruction. The building had not been used for many years but had sufficient capacity to accommodate the entire enrollment.
55. (a) *Q* owns 250 retail stores throughout the United States. He desires to insure the merchandise in these various stores against loss due to fire. Describe the methods that he may use.
- (b) *S* was a manufacturer who had \$380,000 in stock at various locations, \$100,000 improvements and betterments, \$20,000 furniture and fixtures, and \$5,000 machinery. How much insurance should *S* carry?
- (c) *P* insured the merchandise in his various stores under a reporting form. State the company's liability for the following:
- (1) A fire at one of the stores caused \$250 damages to an automobile belonging to *P*.

- (2) *P* had declared in the last report that the merchandise in his store at Los Angeles was \$12,500. An examination of *P*'s merchandise records in the store indicated that the actual value of the merchandise at the time was \$15,000. *P* suffered a loss of \$1,200.
  - (3) The limit for *P*'s stock in the store at Columbus, Ohio, was \$12,000. However, the valuation stated in the last report was \$6,000. *P* carried \$2,000 specific insurance with *Company B*, subject to 80% coinsurance. *P* suffered a \$2,400 fire loss. At the time of the loss there was \$6,000 in merchandise in the store.
  - (4) *P* suffered a fire loss at the Cincinnati store on April 1. The loss was a total amount of \$4,000. The last report made by *P* for the store was \$3,500. The limit for the store was \$6,000.
  - (5) *P* opened a new store at St. Louis, subsequent to the filing of his last report. The policy provided for a \$4,500 limit of liability in that geographical location for any store not specifically listed. The last reported statement of value of all locations was \$1,000,000. However, the actual value was \$1,200,000. During the month, *P* suffered a \$250 fire loss in the new location.
  - (6) The limit of *P*'s policy for Oakland was \$4,000. *P* suffered a loss of \$500 on March 10 and \$3,600 on March 20.
- (d) How is the annual premium determined for the multiple location coverage?
  - (e) Six months after the expiration of the reporting policy, the company desired to audit *P*'s books in order to determine the premium charge. What are the rights of the company?
56. (a) Describe methods that may be used by governmental bodies to reduce fire losses.
- (b) List the methods that may be used by individuals to reduce fire losses.
- (c) State five important functions of the National Board of Underwriters.
- (d) Summarize the results that a fire prevention campaign should produce.
57. (a) What reasons are advanced for variation in rates between risks?
- (b) What is the difference between minimum rated risks and specific rated risks?
- (c) Outline the essential features of the Universal Schedule for determining rates.
- (d) What are the main results of the use of schedule rating?

## CHAPTER 5

### SPRINKLER LEAKAGE INSURANCE WATER DAMAGE INSURANCE

**Need for Sprinkler Leakage Insurance.**—In order to protect property against fire, sprinkler systems have been devised. The systems have resulted in reduction of loss due to fires, and therefore have enabled those who install such systems to obtain very low fire insurance rates. However, the introduction of the sprinkler systems has developed a new hazard; that is, damage to property caused by the sprinkler system itself, which may, for reasons other than a rise of temperature resulting from the presence of a fire, begin to operate and so cause a flood of water. The following are the important causes of leakage :

1. Freezing.
2. Unusual water pressure which the sprinkler head is unable to withstand.
3. Excessive heat.
4. Defective parts in sprinkler equipment, corrosion, vandalism.
5. Accidental injury to sprinkler system.

To provide against this hazard, sprinkler leakage insurance may be purchased.

**Coverage.**—Following are provisions which define the nature and extent of the company's liability :

1. Protection is given against direct loss to property by sprinkler leakage.
2. The term "sprinkler leakage" means leakage or discharge of water or other substance from within any automatic sprinkler system resulting in loss to property described in the policy.
3. The term "automatic sprinkler system" means sprinkler heads, pipes, valves, fittings, tanks, pumps, and private fire protection mains, connected or constituting a part of the automatic sprinkler system and nonautomatic sprinkler systems, hydrants, standpipes, or hose outlets supplied from an automatic sprinkler system.
4. The policy also covers direct loss caused by collapse or fall of a tank forming part of an automatic sprinkler system. This damage is considered part of the loss caused by sprinkler leakage.

**Exclusions.**—Following are provisions which restrict and limit the coverage of the policy :

1. **DAMAGE TO AUTOMATIC SPRINKLER SYSTEM.**—The contract excludes any loss to the automatic sprinkler system unless provided by endorsement under a separate item which mentions no other kind of property.

2. **LOSSES NOT COVERED.**—Coverage does not extend to loss :

- (a) Caused by fire, lightning, windstorm, cyclone, tornado, hurricane, earthquake, blasting, explosion, rupture of steam boilers or fly-wheels, riot, civil commotion, water except from within an automatic sprinkler system, enemy attack by armed forces, including action taken by military, naval, or air forces in resisting an actual or an immediately impending enemy attack, invasion, insurrection, rebellion, revolution, civil war, usurped power, or order of any civil authority.
- (b) Caused by vacancy or unoccupancy.
- (c) Caused by aircraft in flight or in self-propelled motion (not contained in the building at the location described in the policy) or objects from the aircraft.
- (d) From any part of a newly installed automatic sprinkler system until properly tested and all detected defects remedied.
- (e) Occurring during and resulting from the making of repairs, alterations, or extensions involving a wall or support of a floor or roof, or the installation of or change in an automatic sprinkler system after a period of 15 consecutive days from the beginning of such operations.
- (f) Caused by theft.

The insured must use every available means to preserve the remaining undamaged property after sprinkler leakage, or when the property is endangered by sprinkler leakage in neighboring premises if the policy is to cover the loss.

The policy contains many clauses similar to those in the fire insurance policy referring to items such as accounts, appraisals, etc.

**Other Coverages.**—The policy may also be written to cover cost of repairs and replacements to the automatic sprinkler system when the damage sustained is caused by freezing or caused directly by breakage of any of its parts resulting in sprinkler leakage. The company is liable only if the loss or damage exceeds the sum of \$25, and then only for the amount of the excess. No coverage is provided for expenses incurred in replenishing the contents of the automatic sprinkler system.

In addition to the coverages already mentioned, the following are also available: (1) legal liability, (2) assumed liability, (3) aircraft, and (4) newly installed automatic sprinkler system.

1. **LIABILITY IMPOSED BY LAW.**—One may be held liable in loss to property of other tenants in a building caused by the operation of the sprinkler system. Protection against this hazard is afforded by the legal liability form. Provisions of the form are :

- (a) The insured is covered for loss or damage to the property of others, for which he may be held liable by law, except property in the portion of the building occupied by the insured.
- (b) When a sprinkler leakage loss occurs, the insured must notify the company or its authorized agents as soon as practicable.
- (c) If suit is brought against the insured, he must immediately forward the summons or other process to the company's home office. The company will defend the suit at its own expense on behalf of the insured, and will pay the amount of judgments rendered against the insured which the amount of the policy bears to all legal liability insurance.
- (d) The amount of the limit of the company's liability is automatically reduced by the amount paid on each claim.
- (e) The policy excludes liability to others assumed by the insured.

2. **LIABILITY ASSUMED.**—This form extends the policy to cover the property of others for which the insured has assumed liability.

3. **AIRCRAFT ENDORSEMENT.**—This endorsement provides for sprinkler leakage loss caused by aircraft or aircraft equipment outside the building, whether on or off the ground, and to objects falling or descending from aircraft.

4. **NEWLY INSTALLED AUTOMATIC SPRINKLER SYSTEM.**—Since the sprinkler leakage policy excludes liability until a newly installed system is properly tested and all defects remedied, coverage can be obtained by endorsement providing that the company is liable for a specified period of days for the new system, and the exclusions referring to loss "from any part of a newly installed automatic sprinkler system until properly tested and all defects remedied" does not apply.

The extended endorsement does not include liability of the contractors installing the automatic sprinkler system.

**Need for Water Damage Insurance.**—The hazards caused by the use of water in or about any premises have long been recognized. Loss of property may result under any of the following circumstances :

1. Bursting of plumbing pipes, elevator tanks, and water mains.
2. Leakage of steam pipes and radiators, collapse of supply tanks.

3. Overflowing of tubs and basins.
4. Leakage from defective roofs and spouts or from skylights forming part of the roof.
5. Leakage from faucets left open.
6. Freezing of pipes.
7. Rain through open or broken windows.

To provide against this hazard, the water damage insurance policy was introduced. The protection provided is very similar to the protection against sprinkler leakage. There is no physical limitation in the hazard, however, since there is no automatic alarm to warn against accidental leakage of water, as is possible in the sprinkler system. Water works quietly, and extensive damage may easily result in a few minutes.

**Water Damage Policy Coverage.**—Provisions of the policy are :

1. Protection is granted against all direct loss and damage caused solely by the accidental discharge, leakage, or overflow of water or steam from the following sources :
  - (a) Plumbing systems (not including automatic sprinkler).
  - (b) Plumbing tanks (for the storage of water for the supply of the plumbing system).
  - (c) Heating systems.
  - (d) Elevator tanks and cylinders.
  - (e) Standpipe for fire hose, except when supplied by a sprinkler system.
  - (f) Industrial and domestic appliances.
  - (g) Refrigerating systems.
  - (h) Air conditioning systems.
  - (i) Rain or snow admitted directly to the interior of the building through defective roofs, leaders or spouting, or by open or defective doors, windows, show windows, skylights, transoms, or ventilators.
2. "Water damage" means the accidental discharge, leakage, or overflow of water, steam, rain, or snow from systems, tanks, appliances, and parts of buildings, insured against as sources of loss, resulting in loss or damage to property, whether the water damage originates in the portion of the building occupied by the insured or not.
3. The company is not liable for loss or damage to any system, tank, appliance, or part of a building which is the source of such loss or damage.
4. Except as otherwise provided, the policy covers direct loss or damage caused by the collapse or fall of tanks, or the component parts or supports thereof, which form a part of the plumbing system. Such damage or loss is considered as incidental to and part of the damage caused by water.

**Exclusions.**—The company is not liable for loss or damage caused directly or indirectly by the following occurrences :

1. Seepage, leakage, or influx of water through building walls, foundations, basement floors, sidewalks, or sidewalk lights.
2. Floods, inundation, backing up of sewers or drains, or the influx of tide, rising, or surface waters.
3. Any gases, fumes, vapors (other than steam), and failure of refrigerating or air-conditioning systems or equipment to maintain proper temperatures.
4. Fire, lightning, cyclone, tornado, windstorm, hurricane, earthquake, explosion (including explosion of refrigerating and air-conditioning systems and explosion or rupture of steam boilers and flywheels), blasting, invasion, insurrection, riot, civil war or commotion, or by military or usurped power, or by order of any civil authority.
5. Theft.
6. Neglect of the insured to use all reasonable means to save and preserve the property at and after a water damage.

The policy does not cover: (a) accounts, bills, currency, deeds, evidences of debt, money, or securities, and unless specifically covered by endorsement, bullion or manuscripts; (b) buildings or contents of buildings in process of construction or reconstruction unless entirely enclosed and under permanent roof with all outside doors and windows permanently in place; (c) open structures; (d) articles, materials, or other personal property not otherwise specifically excluded from the coverage of the policy, outside of enclosed buildings.

Unless there is a written agreement added, the company is not liable for the following loss or damage:

1. Occurring during and resulting from the making of repairs, alterations, or extensions involving a wall or support of a floor or roof or the installation or change in any of the sources of loss enumerated in the policy after a period of fifteen consecutive days from the beginning of operations.
2. From breakage of or leakage from street water supply mains or fire hydrants.
3. Caused directly or indirectly by aircraft in flight or in self-propelled motion, or objects falling or descending therefrom.
4. While the building is vacant or unoccupied. If the policy is written to cover buildings or contents of a residence, this exclusion does not apply except that the company is not liable for any loss or damage caused directly or indirectly through freezing if the residence has been unoccupied or unheated for a period (immediately preceding the date of loss or damage) exceeding 48 hours, unless the water supply was shut off and the water and other plumbing systems drained during such unoccupancy.

The policy contains other provisions similar to those of the New York Standard Fire Insurance Policy.

The following endorsements can be attached to the water damage policy:

1. Underground water supply mains and fire hydrants endorsements.
2. Water lock endorsement.
3. Inspection and supervision endorsement.
4. Liability imposed by law.
5. Refrigerant leakage endorsement.
6. Deductible clause.
7. Dwelling and contents form.

**1. Underground Water Supply Mains and Fire Hydrants Endorsements.**—This endorsement extends the coverage of the policy to loss or damage to insured property caused directly by the accidental discharge or leakage of water from water supply mains and fire hydrants.

The term “underground water supply mains” does not include any branch piping installed to supply any automatic sprinkler system.

The words “or (a) seepage, leakage, or influx of water through building walls, foundations, basement floors, sidewalks, or sidewalk lights” contained in the policy therefore do not apply in so far as they affect damage done by water from mains or hydrants.

**2. Water Lock Endorsement.**—The provisions of this endorsement are:

- (a) The insured must at all times during the life of the policy maintain and keep in use a water lock installed upon the insured premises.
- (b) The insured agrees that he will properly maintain the water lock.
- (c) If the water lock is not properly maintained, any loss or damage caused by the leakage or precipitation of water from the plumbing system on the insured’s premises is not covered by the policy.

**3. Inspection and Supervision Endorsement.**—The provisions of this endorsement are as follows:

- (a) The insured agrees that a complete inspection and supervisory service will be maintained in the premises covered, during the entire term of the policy.
- (b) If, for any reason, complete inspection and supervisory service is not maintained, the company is not liable for more than a stated percentage of any loss that may occur, and is not liable for more than a specific percentage of the amount of the face of the policy, unless the company’s consent is stated in the endorsement and an additional premium is paid to the company for the discontinuance of the stipulated inspection and supervisory service.

- (c) The insured agrees to give notice to the company in writing of any lapsing or discontinuance of the inspection and supervisory service.

**4. Liability Imposed by Law.**—This form follows the sprinkler leakage form.

**5. Refrigerant Leakage Endorsement.**—The water damage policy is limited to losses caused by water. However, by endorsement the policy can be extended to cover damage caused by the accidental discharge or leakage of the refrigerant from any refrigerating or air-conditioning system. If this endorsement is attached to the policy, all provisions of the water damage policy apply except the following exclusions: “by any gases, fumes, or vapors.”

**6. Deductible Clause.**—If the insured desires, the policy will be endorsed so that the insurance company is liable only for each loss in excess of a stipulated amount, as, for example, \$500.

**7. Dwelling and Contents Form.**—Unless a dwelling and its contents are insured under a Dwelling “All Risks” Form, or Additional Extended Coverage, “water damage” is not covered. This hazard may be covered as a “named peril” by the attachment of a Water Damage-Dwelling and Contents Form to a Water Damage Policy.

Coverage is provided for the buildings and additions and on all permanent fixtures contained within them as part of the building. The form may also extend coverage to include household and personal property usual or incidental to the occupancy of the premises as a dwelling, manuscripts, household and personal property purchased under an installment plan and usual or incidental to a dwelling, belonging to the insured or any member of the insured’s family or for which the insured may be liable while contained in the insured dwelling.

### QUESTIONS AND PROBLEMS

1. Summarize the needs for sprinkler leakage insurance.
2. State the company’s liability under *A*’s \$50,000 sprinkler leakage policy for the following:
  - (a) As a result of leakage of water from a hydrant supplied by the sprinkler system, *A* suffered a loss of \$1,000.
  - (b) A tank which contained water for the automatic sprinkler system broke, causing a \$500 merchandise loss. The cost of replacing the tank was \$600.
  - (c) During a fire in the building, the automatic sprinkler system commenced to operate and *A* suffered a \$1,000 merchandise loss.

- (d) For an unknown cause, the sprinkler system commenced to operate and *A* suffered a loss of \$1,000 to merchandise and \$1,500 damage to fixtures.
  - (e) On the tenth day, during the course of extending the automatic sprinkler system, the sprinkler system commenced to operate and *A* suffered a \$2,000 merchandise loss.
  - (f) During the winter the sprinkler system was damaged, due to freezing. The cost of repairing the system was \$800.
  - (g) Due to corrosion it was necessary to repair the sprinkler system. *A* expended \$450 for repairs.
3. *M* insured his factory against loss due to sprinkler leakage for \$10,000, with coverage for liability imposed by law. Discuss the company's liability under the following circumstances :
- (a) As a result of the operation of the sprinkler system, goods were damaged belonging to *X*, a tenant in the building. *X* claimed \$1,000 loss. The company denied liability.
  - (b) Suppose that, in the above problem, *X* used *M*'s premises?
  - (c) Suppose that, in the problem referred to above, *X* was a tenant in an adjoining building?
4. Discuss the company's liability for the following :
- (a) *D* insured his building against sprinkler leakage loss for \$50,000. *D* leased one of the floors in his building to *G*, and agreed with *G* that he would be liable for any damage to *G*'s property caused by the improper operation of the sprinkler system. During the term of *G*'s lease, improper operation of the sprinkler system resulted in a \$5,000 loss to *G*.
  - (b) *D* insured the contents of his store for \$10,000 against loss from sprinkler leakage. As a result of an aircraft falling on *D*'s building, the sprinkler system was damaged, which in turn caused a sprinkler leakage loss of \$1,000 to *D*'s merchandise.
5. *Y* had a \$15,000 water damage insurance policy. What is the company's liability for the following :
- (a) As a result of rain entering the building through a defective roof, *Y* suffered a \$1,000 merchandise loss.
  - (b) As a result of the freezing of the plumbing system, *Y* suffered a \$5,000 merchandise loss due to damage by water.
  - (c) Due to the collapse of a tank, *Y* suffered a \$1,000 merchandise loss. He also paid \$200 to repair the tank.
  - (d) Backing up of a sewer caused a \$1,500 merchandise loss.
  - (e) As a result of damage to the plumbing system, *Y* suffered a \$1,000 loss on merchandise while the goods were on the sidewalk outside *Y*'s building.
  - (f) *Y* suffered a merchandise loss of \$1,000 following leakage of the street water supply main.
  - (g) Due to fumes from *Y*'s refrigerating system, merchandise valued at \$1,800 was damaged.

- (h) As a result of fire, the plumbing system was broken and *Y* suffered a loss of \$2,500 due to water damaging *Y*'s merchandise.
  - (i) Five days after commencing the addition of another floor to *Y*'s building, rain entered and damaged merchandise valued at \$800.
  - (j) *Y* engaged *X* to change the plumbing system in *Y*'s building. During the course of repairs there was an overflow of water from the system, causing \$2,500 damage to *Y*'s merchandise.
  - (k) A broken fire hydrant caused a \$2,000 loss on merchandise kept in the basement of *Y*'s building.
6. (a) *Q* insured the contents of his factory against loss from water damage for \$10,000, with a water lock endorsement. *Q* installed a water lock, but no attention was paid to its maintenance. He suffered a \$1,000 water damage loss.
- (b) Suppose the policy had an inspection and supervision endorsement. *Q* suffered a \$1,000 water damage on his merchandise. *Q* had discontinued complete supervision five days before the loss.
- (c) Suppose the policy had a liability imposed by law endorsement. As a result of the improper operation of the plumbing system in *Q*'s building, the property of *N*, which adjoined *Q*'s property, was damaged, causing a \$1,000 loss. *N* demanded reimbursement for this loss. In addition, goods belonging to *R* were damaged. *R* was a tenant in *Q*'s building, and his loss was \$2,000.
- (d) *Z* failed to close a water valve, resulting in \$500 damage to *Z*'s merchandise. *Z*'s water damage policy was written subject to a \$250 deductible clause.
7. (a) *B* had a water damage policy covering his private dwelling and its contents. What is the company's liability if *B*'s son let water overflow from a bathtub, thereby causing damage to the building and to some furniture?
- (b) As a result of a heavy rain, water leaked through *B*'s roof and damaged some clothing stored in the attic. Due to the rain, it was also necessary to waterproof the roof.

## CHAPTER 6

### EXPLOSION—EARTHQUAKE INSURANCE

**Need for Explosion Insurance.**—Explosion insurance is an essential need of enterprises such as the following, in which the explosion hazard is inherent :

Aniline dye manufacturing	Gasoline plants
Artificial leather manufacturing	Gun-cotton manufacturing
Benzol plants	Grain elevators and tanks
Celluloid manufacturing	Nitric acid plants
Cleaning and dyeing plants	Oxygen plants
Coal-tar dye manufacturing	Resin and turpentine manufacturing
Distilleries	Rubber goods manufacturing
Fireworks manufacturing	Starch mills
Flour mills	Wood-alcohol manufacturing

**Policy Forms.**—Coverage can be obtained by the explosion policy. Coverage can also be obtained by the extended coverage of the fire insurance policy, as discussed previously.

**Explosion Policy Provisions.**—Coverage of the explosion policy is limited to all direct losses by explosion, accidental or malicious, originating on or off the insured premises, with the following exceptions :

1. Explosion originating within steam boilers, steam pipes, steam turbines, steam engines, flywheels, located in the buildings insured or in the buildings containing the property insured.
2. Fire loss, whether or not caused by explosion.
3. Damages caused by enemy attack by armed forces including action taken by military, naval, or air forces in resisting an actual or an immediately impending enemy attack; invasion; insurrection; rebellion; revolution; civil war; usurped power; atomic fission.
4. Accounts, bills, currency, deeds, evidences of debt, money, notes, and securities.
5. Theft.

Many of the provisions of the fire insurance policy are included in the explosion policy. Loss by explosion also includes loss resulting from the explosion of accumulated gases or unconsumed fuel within the fire-box (or the combustion chamber) of any fired vessel or within the flues or passages which conduct the gases of combustion therefrom.

**Riot and Civil Commotion and Vandalism—Malicious Mischief.**—If the insured desires, the explosion policy will be endorsed to include:

1. Riot and civil commotion coverage.
2. Vandalism and malicious mischief coverage.

The riot and civil commotion coverage provides for loss by riot, riot attending a strike, or civil commotion and includes direct loss by acts of striking employees and direct loss from pillage and looting. However, the company will not be liable for any loss from fire, explosion, pilferage, theft, burglary, or larceny.

The vandalism and malicious coverage is restricted to and includes only wilful or malicious physical injury to or destruction of the property. Under this coverage the company will not be liable for any loss (a) to glass (other than glass building blocks) constituting a part of the building, (b) from fire, explosion, pilferage, theft, burglary, or larceny, (c) during vacancy in excess of 30 consecutive days, unless otherwise specifically stated by endorsement added to the policy.

The endorsement for riot and civil commotion and vandalism and malicious mischief is subject to the following additional clauses: (a) The endorsement cannot be canceled by the company for a period of 90 days beginning with the date of the endorsement except that the endorsement may be canceled at any time by the company for nonpayment of premium upon giving five days' notice of such cancellation. This endorsement may be canceled by the insured at any time, but in such event, the earned premium for the insurance under the endorsement cannot be less than the 90-day premium based on the customary short rates. (b) The company is not liable for any loss resulting from depreciation, delay, deterioration, or loss of market; nor unless specifically endorsed in writing for any loss resulting from change in temperature or humidity.

To meet special conditions, the following endorsements may be used:

1. Inherent Explosion Hazard Exclusion.
2. Mortgagee Interest Endorsements.
3. Loss Assumption Endorsement.

**1. INHERENT EXPLOSION HAZARD EXCLUSION.**—An endorsement may exclude liability for loss or damage caused by explosions resulting from hazards inherent in the business of the insured and of tenants occupying the building, which may be covered by the fire insurance policy, as discussed previously.

**2. MORTGAGEE INTEREST ENDORSEMENT.**—This blanket endorsement covers, within specified limits, the mortgage interests of such

financial organizations as building and loan associations, banks, trust companies, and mortgage loan corporations which own numerous first mortgages.

The company is not liable for any loss on any one building, in excess of any and all specific insurance thereon, in favor either of the first mortgagee or mortgagor unless the loss has impaired the security of the mortgagee to such an extent that the value of the land, as appraised at the time of the loss, and the remaining value of the building plus the specific insurance, if any, do not equal the balance due under the first mortgage interest of the insured on the damaged property. The company is liable then only for the difference between the value of the property remaining plus the specific insurance, if any, and the amount due on the first mortgage interest of the insured, not exceeding a specific sum on any one building.

Liability is further limited to that portion of actual loss which the amount of the policy bears to a stipulated percentage, such as 25%, of the total amount of outstanding loans by the insured within the specified territory at the time of loss. If the total first mortgage interest insurance upon such property exceeds 25% of outstanding loans at the time of loss, the company is liable for the proportion which the sum covered under the policy bears to total first mortgage interest insurance, not exceeding the actual amount of loss to the first mortgagee's interest.

The policy does not cover the first mortgage interest when the building is used for manufacturing, or when the business consists principally of converting raw or partially wrought materials into wares or merchandise or articles which are different in any respect from the raw or partially wrought materials before they enter the process of conversion.

3. **LOSS ASSUMPTION ENDORSEMENT.**—This endorsement extends the coverage to include consequential loss to stock, raw, in process, or finished, covered by the policy caused by change of temperature or humidity, resulting from physical damage to or destruction of apparatus for refrigerating, cooling, humidifying, air-conditioning, heating, or generating power, including connections and supply pipes. There is no liability for consequential loss if resulting from the improper operation of, or the failure to operate the apparatus or its control equipment, unless such apparatus is physically damaged by a peril insured against.

**Earthquake Insurance Policy.**—Earthquake insurance developed as the result of the terrific destruction of lives and property caused by earthquakes in the past. The tendency is for earthquake insurance to be purchased in those districts where earthquakes have occurred previously, although some earthquake insurance is being sold in districts which have

as yet sustained no loss from such catastrophes. It is claimed that no section of the United States is entirely immune from the possibility of earthquakes. This dread has been the chief cause for the purchase of the earthquake insurance policy.

**COVERAGE.**—The earthquake insurance policy covers liability for loss by earthquake or volcanic eruption and by removal of the property from premises endangered by earthquake or volcanic eruption subject to the following conditions and exceptions.

**HAZARDS NOT COVERED.**—The company is not liable for damage caused by windstorm or tidal wave, snowstorm, blizzard, frost or cold weather, explosions, fire, lightning, high water, overflow, cloudburst, theft, and actions of any civil authority and units exercising military or usurped power.

**FIRE LOSS.**—If fire occurs subsequent to any loss by earthquake or volcanic eruption, the company is liable only for the loss which occurred previous to the fire.

**FORMS AND CLAUSES.**—Provisions of the fire policy relating to mortgage interests, subrogation, suit, abandonment, appraisal, and requirements in case of loss are followed in the earthquake policy. The forms and clauses affording protection for rent, profits, business interruption, and leasehold interests, in the event of eruptions and earthquakes, are the forms and clauses added to the standard fire insurance policy. An earthquake and volcanic eruption policy may have a consequential loss assumption endorsement added to the contract. This endorsement is similar to that added to the explosion policy. Unlike fire insurance, foundations of buildings are covered by earthquake insurance and may not be excluded.

**BASIS FOR PREMIUM CHARGE.**—A knowledge of physical forces and extent of hazards is necessary for equitable formulation of rates. The following facts are considered in estimating probable liabilities which must be covered in the premium charge:

1. *Material upon which the foundation rests.* Buildings which rest respectively on rock, gravel, sand, and mud are not equally susceptible to the same amount of shock. Hence an essential variation in the amount of damages depends upon the material used in the foundation of the building.
2. *Construction of the foundation.* Some types of construction may expose the building to easy damage by a shock. Other types are very good for withstanding the strain of an earthquake.

3. *The unity in the building as to materials, rigidity, flexibility, and swing.* It has been found in previous earthquakes that the greater the unity of the building the smaller is the chance that there will be a severe loss.
4. *Position of the faults or rifts.* The severest earthquake shocks occur at the faults. The farther the fault is from the property, the milder will be the damage.
5. *The frequency of destructive earthquakes in the vicinity.* Knowledge of this point is important in estimating probable liability.

**Earthquake Endorsement.**—Earthquake coverage can also be obtained by endorsement to the fire insurance policy. Unlike the policy previously discussed, no reference is made to loss caused by volcanic eruption.

When the endorsement is used, a deductible clause of at least 5% of the value of the property is required. In some cases higher deductibles, such as 10% and 15%, are required. There may be more than one shock in a short period. In such event, if there is more than one earthquake shock within a period of 72 hours, the various shocks are regarded as a single earthquake. The earthquake endorsement covers loss to foundation, excavation, and other parts of the building, although this coverage may not be included in case of a fire loss. No coverage is provided for glass, or lettering or ornamentation on the glass, which is otherwise insured. Furthermore, the endorsement does not cover loss caused by fire, explosion, flood, or tidal wave unless caused by earthquake.

### QUESTIONS AND PROBLEMS

1. Analyze the need for explosion, riot, and civil commotion insurance.
2. State the company's liability under a \$10,000 explosion policy for the following:
  - (a) A steam boiler in Y's building exploded, damaging Y's property and resulting in a \$10,000 loss.
  - (b) An explosion causing a \$1,000 loss was immediately followed by fire, causing a loss of \$2,000.
3. M purchased a \$10,000 explosion policy with riot and civil commotion and vandalism and malicious mischief endorsement on June 15. Discuss the company's liability for the following losses:
  - (a) During a strike, a fight ensued in which ten strikers participated. Two strikers entered M's premises and poured acid on M's goods, causing \$5,000 damage.
  - (b) During the course of a riot, five of the participants entered M's factory and stole goods amounting to \$1,000.

- (c) *F* entered *M*'s factory and maliciously destroyed merchandise, resulting in a \$1,000 loss.
  - (d) A striker entered *M*'s property and poured acid on goods causing a \$1,000 loss. He also broke a plate glass valued at \$500, and, in addition, stole goods valued at \$100. Furthermore, on account of the action of the striker, *M* was unable to deliver goods which had been completed, causing him a loss of \$500 profit.
  - (e) On June 20 *M* notified the company that he desired to cancel his policy.
  - (f) *B*'s explosion policy had a consequential loss assumption endorsement. As a result of the improper operation of the refrigerator on account of explosion, stock in process was damaged. Explain the company's liability.
4. *P* insured the contents of his factory against riot, civil commotion, and explosion for \$10,000, subject to the inherent explosion hazard exclusion endorsement. An explosion caused by dust particles in *P*'s factory resulted in a \$5,000 loss. Discuss the company's liability.
5. A bank purchased a riot, explosion, and civil commotion policy for \$200,000, with a mortgagee's interest endorsement. The bank had a mortgage of \$25,000 on a building owned by *R*. *R*'s building was damaged by explosion. The value of the land and the remaining value of the building immediately after the loss were \$10,000. The total amount of outstanding first mortgages was \$1,600,000. Analyze the liability of the company.
6. (a) Why is there a need for earthquake insurance?
- (b) *T* purchased a \$25,000 earthquake insurance policy covering his building. As a result of an earthquake, the foundation of the building was damaged. Discuss the company's liability.
  - (c) *Y* purchased a \$25,000 earthquake insurance policy. The side of the building was damaged as a result of an earthquake, and rain entered through the opening. The amount of damage done to the wall was \$100, and the amount of damage caused by rain was \$500. Explain the company's liability.
  - (d) What is the basis for the premium charge for earthquake insurance?
  - (e) *N*'s fire insurance policy for \$100,000 was written subject to an earthquake endorsement. *N*'s property was damaged, due to two earthquake shocks occurring within 24 hours. *N* suffered a loss of \$20,000 to the building. However, there was plate glass damage amounting to \$350. After the two shocks, fire broke out destroying the balance of the building. What is the company's liability?

## CHAPTER 7

### STEAM BOILER AND MACHINERY INSURANCE

The use of boilers, engines, turbines, and various electrical apparatuses has increased hazards for which insurance coverage must be provided. There is a possibility that while a boiler or engine is in operation, an explosion or breakdown may occur, injuring persons, destroying property, and possibly causing suspension of business. Electrical apparatus may also be disabled while in operation, causing heavy financial loss and necessitating the installation of new parts. Protection is provided against these hazards by steam boiler and machinery insurance.

The purchaser of this form of insurance will have the protection against loss afforded by the policy, and also the benefit of inspection services rendered by the insurance company. Insured objects are regularly inspected. Following each inspection a report is submitted to the insured which incorporates the recommendation for improvements for efficiency and safety. Business concerns, therefore, purchase this insurance in order to obtain the benefit of the inspection service which should reduce accidents to the equipment and thus prevent loss of capital investment and interruption of production.

**Provisions.**—Unlike most forms of insurance, the boiler and machinery policy embodies only the general outline and the general conditions of coverage. Specific coverages and specific conditions are found in the various schedules and endorsements which form a part of the policy. This method is necessitated by the multiplicity of objects and their peculiarities which must be individually described.

The boiler and machinery policy provides for a limit for each accident which occurs during the term of the policy. The minimum limit is \$5,000. The coverage for each accident is divided into four sections as follows:

**SECTION I.**—The company will pay the insured for loss on the property of the insured that is directly damaged by accident. The company may elect to repair or replace the damaged property. This section does not cover: (1) loss from fire or from the use of water or other means to extinguish the fire; (2) loss from an accident caused by fire; (3) loss from delay or interruption of business or manufacturing or process;

(4) loss from lack of power, light, heat, steam, or refrigeration; (5) loss from any indirect result of an accident.

**SECTION II.**—In order to reduce the period of interruption, this section provides that the company will pay the extra cost represented by items of expense for temporary repair or for expediting the repair of the damaged property of the insured, including extra cost of overtime labor charges and the extra cost of express or other rapid means of transporting material, but the company's liability cannot exceed an amount equal to the amount of the loss for damage to the insured property or exceed the amount of \$1,000. The company's liability under this supplementary expense coverage is a part of, and not in addition to, the limit per accident.

**SECTION III.**—Provides that the company will pay, to the extent of the indemnity remaining after payment of all losses as required under Section I and Section II, any amount which the insured is obligated to pay by reason of the liability of the insured for loss of property of others directly damaged by the accident, including liability for loss of use of the damaged property of others.

**SECTION IV.**—Provides that the company will pay, to the extent of any indemnity remaining after payment of all loss as may be required under Sections I, II, and III, such amounts as the insured may be obligated to pay by reason of the liability of the insured, including liability for loss of service on account of bodily injuries (including death at any time resulting therefrom) sustained by any person and caused by the accident. The company is not liable for claims under any Workmen's Compensation Law. The company will also pay, if loss under Section IV is covered, irrespective of the accident limit for immediate necessary surgical relief rendered at the time of the accident.

**General Exclusion.**—There is no coverage if the accident was caused directly or indirectly by bombardment, invasion, civil war, insurrection, rebellion, revolution, military or usurped power, enemy attack, or by operations of armed forces while engaged in hostilities, whether war be declared or not.

**Limit of Liability.**—The limit which is payable for any accident under the steam boiler and machinery policy, as the above shows, is paid progressively in the following sequence:

1. Loss of the insured's property, including the insured object.
2. Expediting expense.
3. Damage to property of others.
4. Personal injury.

The steam boiler and machinery policy provides for the payment of losses involved in each accident during the policy term, provided that at the time of the accident the object was in use or connected and ready for use at the location designated for it in a schedule accompanying the policy and in which the object is described. The amount paid for any one accident, however, may not exceed the amount specified as the limit per accident.

Though the amount of insurance in case of any one accident is limited, there is no limitation as to the number of accidents. Similar to most liability policies, the policy is of a continuous indemnity type. As long as the policy is in force, the company is liable for each accident up to the limit of liability for one accident. The basic policy includes coverage occasioned by strike, riot, civil commotion, or malicious mischief.

When any parts of the damaged property must be repaired or replaced, the company's liability for repairs and replacements does not exceed the cash value of these parts or of the entire object, whichever is lower. In computing the actual cash value, deductions are made for depreciation however caused.

In the event that the company and the insured cannot reach an agreement as to the extent of any loss, the amount can be determined by an appraisal.

In addition to the limit of liability, the company agrees to pay, irrespective of the limit per accident, (1) all costs taxed against the insured in any legal proceedings defended by the company for bodily injury or property damage of third parties; (2) all interest accruing after entry of judgment rendered up to the date of payment by the company of its share of the judgment; (3) all premium charges on attachment or appeal bonds required in the legal proceedings; and (4) all expenses incurred by the company for the defense.

**Other Insurance.**—The policy also provides, in connection with personal injury liability coverage, that if at the time of an accident there is in effect any contract or other provision covering the personal injury liability loss, the company is liable only for that part of the loss which exceeds the amount of other insurance. This rule applies whether the indemnity is to be paid by another insurance company, by any association or individual, or by a corporate or political body. Therefore, suppose a boiler and machinery policy was issued subject to a limit of \$50,000, and the object caused injury to a third party which was settled for \$5,000. If the insured carried public liability insurance subject to a limit of \$5,000 per person, there would be no liability under the boiler and machinery policy. However, if the claim was settled for \$6,000, the liability of the company under the policy would be \$1,000, assuming there were funds available after payment of damage to the insured's

property, expediting expense, and damage to the property of others.

With respect to loss of property of the insured, expediting expense, and damage to property of others, the company's liability under a steam boiler and machinery policy is regarded as contributing insurance with any similar valid and collectible insurance.

**Suspension.**—The company has the right at all reasonable times to inspect the various objects. Upon the discovery of any dangerous condition with respect to any object, any representative of the company may suspend the insurance by written notice mailed or delivered to the insured at the latter's address or to the location of the object to which the suspension applies. A prorata premium adjustment is made in the insured's favor for the period of suspension on the object. The suspended insurance may be reinstated by endorsement.

Following other policies covering property damage and injury to third parties, the company will not be liable for loss from an accident unless written notice is given by or on behalf of the insured to the company or to any of its authorized agents, as soon as practicable. The insured must give notice of any claim made on account of the accident. The company must have reasonable time and opportunity to examine the property and the premises of the insured before repairs are undertaken or physical evidence of the accident is removed, except for protection or salvage. Proof of loss must be made by the insured in such form and detail as the company may require. Upon request of the company the insured must render every assistance in facilitating the investigation and adjustment of any claim, submitting to examination and interrogation by any representative of the company. The insured cannot voluntarily assume any liability, make any payment, or incur any expense other than at the insured's own cost (except immediate first aid), or interfere in any negotiation for settlement or any legal proceeding, without the consent of the company previously given in writing. The payment by the insured of any judicial judgment or claim for any of the indemnity for which the company would become liable under the policy will not bar the insured's right of action against the company.

The company must be subrogated in case of payment of loss, to the extent of the payment, to all of the insured's rights of recovery, and the insured must execute all papers required and do everything necessary to secure such rights.

If a suit is brought against the insured for loss, the insured must immediately forward to the company every summons or other process served upon him. Upon request of the company the insured must aid in effecting settlements, in securing evidence and the attendance of witnesses, and in prosecuting appeals.

Suit cannot be brought under the policy unless commenced within 14 months from the date upon which the accident occurred, except that an action for indemnity payable as the result of a suit against the insured can be brought within two years after the termination of the suit.

The coverages for bodily injury liability and expediting expense can be eliminated by endorsement, and a premium allowance will be made for the elimination of these coverages. Incidentally, bodily injury liability coverage is not afforded for residence boilers and vessels. Furthermore, expediting expense coverage cannot be excluded from blanket coverage on residence boilers and vessels.

**Endorsements.**—Provisions of both the boiler and machinery policies may be affected by the use of the following endorsements or policies :

1. Premium over \$3,000.
2. Automatic coverage.
3. Blanket group insurance.
4. Nonownership explosion policy.
5. Deductible liability.
6. Reserve objects.
7. Seasonal objects.
8. Multiple interests under a single policy.
9. Additional interest coverage.
10. Excess limits.

1. **PREMIUM OVER \$3,000.**—The portion of the premium for a policy written for three years which exceeds \$3,000 will be subject to a discount of 25%. However, if the policy was originally issued for a term of one year or less, the discount will be applicable to that portion of the premium for the period of coverage which exceeds \$1,000.

2. **AUTOMATIC COVERAGE.**—During the course of the policy period, the insured may have occasion to install new objects, similar to those already insured, at the various locations stated in the policy, or similar objects at other locations. Under such circumstances, any object installed after the effective date of the policy by the insured at any location stated in any of the schedules of the policy, or which exists in any property at any location within the Continental United States which may be subsequently acquired by the insured, will be considered as added to the policy as of the time the object is first placed in operation by the insured. This coverage is subject to the following conditions :

- (a) The insurance provided under the endorsement will not apply unless the insured notifies the company in writing within 90 days after the object is first placed in operation by the insured.
- (b) The insured agrees to pay the required additional premium for the insurance on the object, based upon the company's manual of rules

and rates in force on the date the object is first placed in operation by the insured.

- (c) Loss from an accident to any object which is hereafter installed in any location specified in any schedule forming part of the policy will be subject to the limit per accident specified for other objects insured at the location.
- (d) Loss from an accident to any object which exists in any property at any location subsequently acquired by the insured will be subject to a stipulated limit per accident for newly acquired locations.

In some policy forms the automatic coverage is a part of the basic policy for which a premium charge is made. However, this coverage can be eliminated by endorsement, with a reduction in the premium charge.

3. **BLANKET GROUP INSURANCE.**—If the insured desires, blanket coverage for certain groups of objects is available. Specified groups of objects can be insured without specifically describing each object in the policy. The coverage is available for (1) all objects of selected classifications which are in use or connected ready for use at any of the locations described in one policy, and (2) all portable objects of selected classifications.

An insured may have some of the following objects at a single location:

- (a) Steam boilers of the fire tube, flueless, and water tube types, classified as having a pressure in excess of 15 pounds.
- (b) Steam turbines and water turbines having a capacity of 100 kilowatts or over.
- (c) Steam engines.
- (d) Internal combustion engines.
- (e) Reciprocating compressors and pumps of the internal combustion type.
- (f) Electric generators, electric motors, synchronous or rotary condensers, synchronous or rotary converters, and dynamotors having a capacity of 100 kilowatts or over, or the equivalent.
- (g) Furnace transformers.

If ten or more of these objects are insured on the blanket group plan, a discount will be allowed from the direct damage rates for all objects at the location except (1) the objects listed above, (2) replaceable service tanks, and (3) residence boilers and vessels.

The premium will be adjusted for individual objects added or withdrawn during the year. The adjustment will be made as though the objects had been added or withdrawn at the end of the first six months of the policy year. If a group is added during the covered term, the addi-

tional premium is charged pro rata for the unexpired term. If a group is eliminated, the return premium is computed at short rates.

4. **NONOWNERSHIP EXPLOSION POLICY.**—The extended coverage of the fire insurance policy covers for explosion of various boilers and pressure containers provided the explosion does not occur within any part of the building occupied by the insured. Therefore, if a tenant occupied a part of the building and the boiler which was operated by the landlord exploded and damaged the property of the tenant there would be no coverage under the extended coverage of the tenant's fire insurance policy. However, by the use of the nonownership explosion coverage the company will be liable for loss from an explosion of boilers, pressure containers or machinery not owned, leased, or located on any property owned or leased, operated or controlled by the insured at the time of the explosion and subject to a specified limit for the explosion. The provisions of the policy are similar to the provisions of the boiler and machinery policy.

5. **DEDUCTIBLE LIABILITY.**—Deductible liability policies are available in which the insurance applies only on the part of a loss on the insured's own property from an accident in excess of a stipulated amount. The endorsement must specify the deductible amount which the insured assumes and which is deducted from each loss.

Deductible liability is not afforded where the limit per accident is \$10,000 or less. Furthermore the deductible amount may not be greater than the respective limit per accident. If an accident involves two or more objects, the amount deductible for the accident is the largest amount stated in the endorsement for any of the objects involved.

6. **RESERVE OBJECTS.**—The insured may have some objects which he keeps in reserve for emergency use. These reserve objects may be used for very short periods of time. Any such objects, the operation of which was limited to 90 days or less in the three-year period preceding the inception date of the coverage, may be rated as reserve objects. Operation for the purpose of maintenance for a period of 24 hours or less will not be considered operation.

The object rates for each object for which the insured, in a signed statement, presents information showing that the operating period of the object is so limited will be subject to a reduction in premium. No reduction will be allowed for any cast-iron boiler or for any low-pressure steel boiler (steam 15 pounds or less, hot water heating, or hot water supply) of the fire-tube or water-tube types. Because of the acquisition of equipment or additional power facilities, an insured may decide to hold in reserve some objects which had been in continuous

operation. Any such object which would qualify as a reserve object, if existing conditions had obtained during the three-year period immediately preceding the inception date of the policy, but for which no record of past operation is available, will be rated as though a record of past operations were available, provided a statement signed by the insured, detailing the schedule of anticipated operation with satisfactory explanation is submitted to the company.

7. SEASONAL OBJECTS.—Frequently objects may be used only during certain seasons of the year. Reduction in rate will be granted for such objects.

Seasonal objects are objects, the operation of which is typically seasonal and customarily suspended during some part of each year and was completely discontinued during one period of at least six consecutive whole months within the three-year period immediately preceding the inception date of the policy.

The object rates for each object for which the insured, in a signed statement, presents information showing that the operating period of the object meets the requirements for seasonal objects will be subject to a reduction of premium for each month of nonoperation, but not exceeding a total specified reduction for three years. No reduction will be allowed for any cast-iron boiler or for any low-pressure steel boiler (steam 15 pounds or less, hot water heating or hot water supply) of the fire-tube or water-tube types.

An object which would qualify as a seasonal object, if existing conditions had obtained during the three-year period immediately preceding the inception date of the coverage to be afforded, but for which no record of past operation is available, will be rated as though a record of past operations were available, provided a statement signed by the insured, detailing the schedule of anticipated operation with satisfactory explanation is submitted to the company.

8. MULTIPLE AND ADDITIONAL INTERESTS.—In addition to the insured, there may be other individuals or corporations who may be affected on account of damage to the boiler or other object. These individuals may be associated with the insured in business or they may be tenants in the building owned by the insured.

If the interest is considered a multiple interest, no additional premium is charged for endorsing the names of these multiple interests on the policy of the insured. If the interest is considered an additional interest, such as a tenant in a building, the tenant's name can be endorsed on the policy. If that is not possible, a separate policy is available.

9. MULTIPLE INTEREST UNDER A SINGLE POLICY.—A single policy can be issued in the names of two or more insureds without affecting

the premium, provided one of the named insureds has a controlling interest in all objects included in the schedules of the policy. Otherwise the premium for the coverage charged to the additional interest must be equivalent to the sum of the premiums issued to the separate interests.

Controlling interest means :

- (a) Actual ownership, that is, majority ownership of stock or majority share of a partnership.
- (b) Voting control, that is, direction of the insured's affairs through voting control, clearly shown in a standard financial reference work such as *Moody's Investor's Service* or *Poor's Register*, or through an independent investigation.
- (c) Operation by a written contract, that is, direction of the insured's affairs and operated interests through written lease or contract.
- (d) Operation by a fiduciary agent, that is, management of various interests by a bank or trust company for which it acts in various fiduciary capacities, including management of properties it may own.

10. ADDITIONAL INTEREST COVERAGE.—A tenant's name may, with the insured's permission, be added to the boiler and machinery policy covering boilers which are insured by the landlord or any other tenant in the same building. If permission to add the tenant's name cannot be obtained, coverage can be obtained protecting the tenant under a separate policy.

The additional interest policy applies to objects covered by the primary policy, and not any parts of objects, such as boiler piping, not covered by the primary policy. The policy may omit certain coverage provided by the primary policy, or certain selected objects covered.

An additional premium is charged for direct damage coverage under an additional interest policy before the application of premium gradation, except that :

- (a) The full premium charge will be made for any coverage not afforded by the primary policy.
- (b) The full premium charge will be made for that portion of the limits of the additional interest policy in excess of the corresponding limits of the primary policy.

If the additional interest policy provides coverage for use and occupancy, consequential damage, or outage, the full premium charge must be made for the coverage whether or not the coverage is included in the primary policy. These coverages will be discussed subsequently in this chapter.

11. EXCESS LIMITS.—As stated previously, the basic limit per accident is \$5,000. Upon payment of an additional premium, the limit per accident can be increased.

**Boiler and Machinery Schedules.**—Various schedules are attached to the boiler and machinery policy to cover different objects. The following schedules will be discussed as illustrations :

1. Boilers.
2. Unfired vessels.
3. Replaceable service tanks.
4. Residence boilers and vessels.
5. Engines, reciprocating pumps, and compressors.
6. Motors, rotating electrical machines, transformers, and induction feeder regulators.

1. **BOILERS.**—This schedule covers all types of boilers and other fired-pressure vessels including cast-iron boilers. Fire-tube and water-tube boilers are examples of objects thus covered.

Insured objects are described in the schedule by designation of boiler number, type, class, size, fuel, and location. The schedule also indicates if coverage is provided for boiler piping and furnace explosion.

Two coverages are available for boiler accidents, that is, the broad coverage and the limited coverage. If the policy provides broad coverage as respects any object described in the schedule, "accident" means

- (a) A sudden and accidental tearing asunder of the object, or any part of the object, or a sudden and accidental crushing inward of a cylindrical furnace or flue of the object caused by pressure of steam or water in the object.
- (b) A sudden and accidental cracking of the object, or any cast-iron part of the object, if the cracking permits the leakage of steam or water.
- (c) A sudden and accidental burning or bulging of the object, or any part, which is caused by pressure of steam or water within the object, or which results from a deficiency of steam or water in the object, and which immediately prevents or makes unsafe the continued use of the object.

However, accident does not mean the cracking of any part other than a cast-iron part, nor the tearing asunder, burning, bulging, or cracking of any safety disc, rupture diaphragm, or fusible plug, leakage at any valve, fitting, joint, or connection.

If the policy provides limited coverage, "accident" means a sudden and accidental tearing asunder of the object, or any part thereof, caused by pressure of steam or water in the object. However, accident does not mean

- (a) The cracking of the object or any part,
- (b) The tearing asunder of any safety disc, rupture diaphragm, or fusible plug,
- (c) Leakage at any valve, fitting, joint, or connection.

The boiler may be damaged due to the improper combustion of the fuel, causing a furnace explosion. If furnace explosion is included, coverage is provided for any sudden and accidental explosion within the furnace, tubes, flues, or other passages used for conducting gases from the furnace to the atmosphere. The company is not liable, however, unless the object is operated with the kind of fuel specified in the schedule. If the insured has purchased extended coverage with his fire insurance policy, loss due to furnace explosion is included, as explained on page 109. It is sometimes advisable to include loss due to furnace explosion in the boiler and machinery policy in order to obtain the inspection service rendered by the boiler insurance company and protection against loss due to damage done to property of third parties.

2. UNFIRED VESSELS.—Cookers, steam tables, and tanks subject to pressure of steam, air, or gas are among the various objects to which the unfired pressure vessel schedule applies. Columns are provided in the schedule to indicate the designating number of each object, type of object, description, process and type number, size and contents limit.

The term "accident," as respects this schedule, means only the following:

- (a) A sudden and accidental tearing asunder or a sudden and accidental crushing inward of the object, or any part, caused by pressure or contents or caused by vacuum in the object.
- (b) A sudden and accidental cracking of the object, or any part, if the cracking permits the leakage of contents.
- (c) A sudden and accidental bulging of the object, or any part, which is caused by pressure of contents and which immediately prevents or makes unsafe the continued use of the object.

However, "accident" does not mean

- (a) The tearing asunder, bulging, or cracking of any safety disc, rupture diaphragm, or fusible plug.
- (b) Leakage at any valve, fitting, joint, or connection.

Coverage may be included for a loss of the contents of any object resulting from an accident to the object. This amount is part of and not in addition to the limit per accident. Since some of the objects may be used for the storage of gas or liquid, any object which is used for such purpose, and which is periodically filled, moved, emptied, and refilled in the course of its normal service, is at all times considered as "connected ready for use."

3. REPLACEABLE SERVICE TANKS.—As respects any replaceable service tanks, the insured object means any cylindrical tank which does

not exceed three feet in diameter and which, though located temporarily on the premises, is not owned by the insured. A further condition for coverage is that the tank must contain the liquid or gas specified in the schedule.

The schedule states the maximum number of objects and their contents. The coverage for accident is the same as for unfired vessels. Each object mentioned in the schedule is considered throughout the policy period as connected and ready for use within the terms of the policy.

*Limit of Liability.*—The company's liability is limited to that portion of any loss which the specified maximum number of objects bears to the actual number of such objects on the premises at the time of the accident.

4. RESIDENCE BOILERS AND VESSELS.—Like business concerns, a residence may contain various pressure objects such as steam heating boilers, storage water heaters, and oil tanks. Two forms of coverage are available to insure residences. These are (1) blanket coverage and (2) special form for small residences.

The blanket coverage provides protection against accidents to boilers and pressure vessels in the residence. The company is liable for damage to the object, including expediting expenses. However, as stated previously, there is no coverage for bodily injury. Furnace explosion might be included for the reasons given on page 187.

*Residence Blanket Schedule.*—Unlike other schedules, the schedule covering residence boilers and vessels does not specifically designate insured objects, but applies to all objects of certain types in a single residence or outbuilding on the same premises. These objects may be any of the following types :

- Steam heating boilers.
- Hot-water heating boilers.
- Hot-water supply boilers.
- Hot-air furnaces and stoves.
- Storage water heaters.
- Electric water heaters.
- Coil water heaters, water fronts, and water backs.
- Incinerators and garbage burners used for hot-water supply service.
- Economizers used for heating water.
- Air tanks.
- Oil tanks.
- Water supply tanks.
- Expansion tanks used in connection with hot-water heating systems.

“Residence” includes the building and any garage or other outbuilding used in connection with the residence and heated by the same heating

system, provided the heating unit supplying the system is not installed in any outbuilding other than a garage.

As a result of an accident, the residence may be closed and the insured may have to pay rent for another location. Therefore the residence blanket schedule can also be used to provide an amount of daily indemnity for each day (or pro rata of the amount for a fraction of a day) of prevention of occupancy of the residence caused solely by an accident to any object covered under the schedule but subject to a limit of loss for any one accident. In case of accident, the insured must send notice of the accident, by telegram or by letter, to the company at its home office. The company will not be liable for payment for prevention of occupancy during any period before the 24th hour prior to the arrival of the notice.

For the purpose of the schedule "accident" means the following :

1. A sudden and accidental tearing asunder of the object, or any part, caused by pressure of contents, or a sudden and accidental crushing inward of a cylindrical furnace or flue of the object so caused.
2. A sudden and accidental cracking of the object, or any part, if such cracking permits the leakage of steam or water.
3. A sudden and accidental burning or bulging of the object, or any part, which is caused by pressure of steam or water within the object or which results from a deficiency of steam or water in the object, and which immediately prevents or makes unsafe the continued use of the object.

However, "accident" does not mean (a) the tearing asunder, burning, bulging, or cracking of any safety disc, rupture diaphragm, or fusible plug, (b) leakage at any valve, fitting, joint, or connection.

If coverage for furnace explosion is desired, accident also means a sudden and accidental explosion of gas within the furnace of the object or within the tubes, flues, or other passages used for conducting gases from the furnace to the atmosphere.

If the loss of use of the residence is covered, the insurance will also be subject to the following provisions :

1. The liability of the company for payment for any one day cannot exceed the amount stated in the schedule as the daily indemnity. The company's total liability on account of loss of use in any one accident cannot exceed the amount stated as the company's limit of loss.
2. "Prevention of occupancy" means the prevention of the use of the residence so that no person (except a caretaker or a watchman required for the protection of the property) is able to occupy the residence.
3. The company will not be liable for payment (a) for any prevention of occupancy resulting from an accident caused by fire or by the use

of water or other means to extinguish fire, or for any prevention of occupancy resulting from fire outside of the object, following an accident; (b) for any time during which the residence would not or could not have been occupied if the accident had not occurred; (c) for any prevention of occupancy resulting from the failure of the insured to use due diligence and dispatch in making the residence ready for occupancy. The period of prevention is not limited by the date of the end of the policy period.

4. The company may take such means as will, in the opinion of the company, permit the occupancy of the residence, or the company may require the insured to take such means. Any extra expense incurred at the written direction of the company will be paid by the company. All such expenses, whether incurred by the company or by the insured at the written direction of the company, are a part of and not in addition to the limit of loss.

*Special Residence Coverage.*—This policy, which is used for residences which do not contain more than 12 rooms, is similar to the blanket residence policy except that coverage is limited to loss caused by (1) any steam or hot-water boiler or hot-air furnace installed in and used in heating the insured premises, excluding any piping leading to or from the boiler or furnace; (2) any water heater installed in and used in heating water for the insured premises, including a single storage tank connected to the water heater but excluding any piping leading to or from the water heater.

Under the policy the term “accident” is limited to explosion of the object or any part caused by pressure of steam or water in the object, or the explosion of gases in the object or gas passages from the object to the atmosphere. However, “accident” does not mean the tearing asunder of any safety disc, rupture diaphragm, or fusible plug, or leakage at any valve, fitting, joint, or connection.

The policy is written subject to a limit of \$10,000 in the aggregate. The various general provisions of the policy are similar to the blanket residence policy, except that no inspection service is provided.

Residence boiler insurance is also available by the use of the all risk or Additional Extended Coverage Endorsement described on page 112.

5. **ENGINES, RECIPROCATING PUMPS, AND COMPRESSORS (EXCEPT INTERNAL COMBUSTION TYPE).**—This schedule covers steam engines and reciprocating pumps and compressors for air and other gases. When internal combustion cylinders form an integral part of the insured objects, the internal combustion type schedule must be used. The objects covered must be designated and described: designating number of each object, kind of object (engine, pump, or compressor), type of object, manufacturer, total number of cylinders, and rating cylinder size.

For the purpose of the policy "accident" means any of the following :

1. A sudden and accidental breaking of the object, or any part, into two or more separate parts, but not the breaking of any gasket, gland packing, shaft seal, or diaphragm, or the loosening of any assembled parts.
2. A sudden and accidental burning out of the object, or any part, but not the burning out of any gasket, gland packing, or shaft seal.
3. A sudden and accidental deforming of any shaft or rod of the object, not caused by the cracking of the shaft or rod.

6. MOTORS, ROTATING ELECTRICAL MACHINES, TRANSFORMERS AND INDUCTION FEEDER REGULATORS.—The motors, rotating electrical machines, transformers, and induction feeder regulators covered under the schedule must be designated and described as follows : designating number of each object ; manufacturer ; type of object—D.C. or A.C., motor, generator, transformer, etc. ; voltage ; and capacity (kw., kv-a., h.p.).

The term "accident" means

1. A sudden and accidental breaking of the object, or any part, into two or more separate parts, but not the breaking of any shear pin, safety link, vacuum tube, gas tube, fuse, brush, or insulation, or the loosening of any assembled parts.
2. A sudden and accidental burning out of the object, or any part, but not the burning out of insulation unless accompanied by a short circuit, or of any vacuum tube, gas tube, fuse, or brush.
3. A sudden and accidental deforming of any shaft of the object not caused by the cracking of the shaft.

The fire exclusion of the policy is limited to loss from fire outside the object (or from the use of water or other means to extinguish fire).

The company will not be liable for loss from an accident to any object insured in the schedule while the object is undergoing an insulation breakdown test or is being repaired or dried out.

**Additional Coverages.**—The basic steam boiler and machinery policy covers direct damages. A plant, however, may be closed because of accident, causing loss of profits and continuing expenses. In addition, the insured may desire payment for each hour an object cannot be used on account of accident. To meet various contingencies, coverage is provided by endorsement to the basic policy for the following hazards :

1. Use and occupancy insurance or business interruption insurance.
2. Consequential damage insurance.
3. Outage insurance.

**1. Use and Occupancy Insurance.**—There are two forms of use and occupancy endorsements available. (a) The business-valued form, under which the company will pay a stipulated daily indemnity without requiring proof that that amount was lost, for each day, subject to a total limit of loss for the policy period; (b) the business-actual loss sustained form under which the company is liable only for the actual daily loss sustained by the insured, subject to a total limit of loss.

(a) **THE BUSINESS-VALUED FORM.**—The coverage provided by the business-valued form is a specified indemnity to be paid for each day during which the business operations are prevented because of an accident to a specified group of objects, whether the objects are located in the particular plant or at some other location specified in the endorsement.

The insured must select a fixed amount of daily indemnity to cover his anticipated losses, such as loss of profits, overhead expenses, and maintenance expenses resulting from prevention or reduction of business on the premises. The total liability for any one accident is also subject to a total limit, regardless of the number of days of prevention or reduction of production.

Use and occupancy insurance cannot be written where the prevention of the functions of the object may result merely in increased operating expenses or intangible losses not directly reflected by prevention or reduction of business. Coverage under such circumstances should be obtained by outage insurance, as explained later in this chapter.

If the insured is other than a public utility and an object forms a part of a public utility system, and the object is used solely for supplying service to the premises of the insured, then use and occupancy insurance may be afforded for the object.

*Determination of Indemnity.*—The use and occupancy form provides for a specific indemnity for each day during which business is totally prevented on the premises. The interruption of business operation must be the result of an accident, as described by the policy, to an object covered by a schedule of the policy. If an object is either not covered or is not specifically included in the use and occupancy endorsement, the company is not liable for the resulting loss.

The full daily indemnity is payable for total prevention of business during the entire day. A portion of the daily indemnity will be paid for partial prevention of operations resulting in business for the day being less than current business. The company's liability for partial prevention is that portion of the daily indemnity for total prevention which the reduction in business bears to current business. Consequently, if the insured had daily indemnity coverage for \$5,000, and if there were a

25% shutdown, the limit of liability of the company would be  $.25 \times \$5,000$  or \$1,250.

In these calculations, a day constitutes a period of 24 consecutive hours from midnight. Current business is an arithmetical mean of total business during three days preceding the accident. The insured may select either the three days which just precede the date of the accident or which fall in any calendar week in any of the eight calendar weeks, in each of which business has been done, preceding the accident.

*Business Covered.*—The term “business” in use and occupancy forms is variously defined for different types of business activity. When the premises are used for manufacturing purposes, the interruption of business is measured by the production on the premises of the finished product ready for packing, shipping, or sale. For mercantile business, the measure is gross sales on the premises. When the premises are used for rental purposes, the rents collectible from the property are the measure of business. Finally, gross income is the measure of business for property used for professional purposes.

*Liability Date.*—Commencement of the company’s liability depends upon the time of the arrival of notice of the accident. Notice may be communicated by telegram or letter either to the home office or to any other place designated in the endorsement. Whichever place the notice first reaches determines the commencement of the company’s liability. If the form states that liability commences at the time of the accident, the company is not liable for payment during any period before the 24th hour prior to the arrival of notice. If the commencement of liability is stated as of a designated midnight, the company is not liable for prevention of business during any period prior to that midnight after receipt of notice of the accident by the company.

(b) THE BUSINESS-ACTUAL LOSS SUSTAINED FORM.—Under this endorsement, actual loss sustained means

1. Loss of net profit, which is the difference between the prospective sales value and the estimated cost value of the business prevented.
2. That part of the following fixed charges and expenses which the business did not earn because of an accident, but which the business would have earned had the accident not occurred:
  - (a) Salaries of officers, executives, employees under contract and other important employees, pensions, and directors’ fees.
  - (b) Manufacturing, selling, and administrative expenses, and any other items contributing to the overhead expenses of the insured.
3. Expenses which are necessarily incurred by the insured to reduce or avert prevention of business, but not exceeding the amount by which the loss covered by the endorsement is reduced.

Due consideration will be given to the experience of the business before the accident and the probable experience thereafter. The endorsement is subject to maximum daily indemnity and subject to limit of loss per accident. As in the valued form, there are provisions concerning commencement of liability and limitation of liability, reduction, reducing loss, definition of the terms "day" and "business."

As the policy is subject to coinsurance, the company will not be liable for the payment of a greater proportion of the amount of actual loss sustained, resulting from any one accident, than the maximum daily indemnity bears to the amount obtained by applying the coinsurance percentage to the total monthly amounts of net profits, fixed charges, and expenses for the month in which the accident occurred, without reduction because of the accident, divided by the total number of working days in the month.

*Modifications.*—Use and occupancy insurance may be modified by (1) varying limits and (2) suspended liability endorsements.

The varying limits endorsement provides for varying limits of indemnity for different periods of the policy year instead of a fixed daily indemnity.

The suspended liability endorsement provides that the use and occupancy endorsement may be amended so as to suspend liability for payments of daily indemnity during certain specified periods, irrespective of the date on which the accident occurs.

**2. Consequential Damage Insurance.**—Consequential damage insurance covers losses due to spoilage of the property of the insured and his liability for spoilage of property of others. The cause of loss must be lack of power, light, heat, steam, or refrigeration at a specifically designated plant, resulting from an accident to any one of a specified group of objects whether or not located in that plant. The property may be covered solely while in storage, dependent upon cold or heat, or without any storage restriction.

This insurance is also available to cover suspension of operation of a plant deriving all or part of its power, light, heat, steam, or refrigeration from objects outside the insured's premises by reason of accidents to these specified objects. This coverage does not include loss caused by accidents to objects forming part of public utility systems.

If the insured is other than a public utility and an object forms a part of a public utility system, such object being used solely for supplying service to the premises of the insured, then consequential damage insurance may be afforded such an object.

An example of such an object would be a transformer, owned by a public utility and located on the insured's premises or elsewhere, but used to supply only the insured's operations.

Consequential damage insurance can be written either on a coinsurance basis or without coinsurance. If the endorsement is written with a coinsurance clause, the company will not be liable under the endorsement for the payment of a greater proportion of the amount of loss resulting from any one accident than the limit of liability bears to the amount obtained by applying the coinsurance percentage to the actual cash value of the specified property at the time of the accident.

In the consequential damage endorsement, the company's total liability for any one accident, called the "limit of liability," is specified. This limit applies, irrespective of the designated limit per accident in the policy. This liability is further limited to actual cash value of the property at the time the accident occurred, with adequate allowance for depreciation.

**DUTIES OF THE INSURED.**—The company may require the insured to take means to prevent and reduce losses, including the disposition of salvaged property. Expenses so incurred by the insured, at the written direction of the company and by the company itself, are considered as part of the limit of liability rather than as an addition thereto.

The company itself may dispose of salvaged property and act in any other way which in its opinion will minimize loss.

**EXCLUSIONS.**—The company will not be liable for any of the following:

1. For any loss resulting from an accident caused by fire or by the use of water or other means to extinguish fire.
2. For any loss resulting from fire outside of the object, following an accident.
3. For any loss resulting from the failure of the insured diligently to use all reasonable means to protect the specified property from damage, following an accident.

Suit may be commenced by customers of the insured if spoilage occurs, on account of the legal liability of the insured. The endorsement therefore provides that the company must (1) defend the insured against any claim or suit alleging liability of the insured for loss on property of others specified in the endorsement unless or until the company elects to effect settlement; (2) pay, irrespective of the limit of liability, all costs taxed against the insured in any legal proceeding so defended by the company; (3) pay all interest accruing after entry of judgment up to the date of payment by the company of its share of the judgment; (4) pay all premium charges on attachment or appeal bonds required in such legal proceedings; (5) pay all expenses incurred by the company for such defense.

MODIFICATIONS.—The consequential damage endorsement may be amended by a varying limits endorsement and a suspended liability endorsement.

**3. Outage Insurance.**—Outage insurance provides a specific indemnity for each hour during which the functions of an insured object are prevented by an accident to the object as described by the policy. It should be noted that the purpose of outage insurance is to provide reimbursement for increased operating expense and intangible losses which do not necessarily involve any actual reduction of business. For the latter hazard, use and occupancy insurance should be used. Risks covered by outage insurance include schools, office and apartment buildings, contracting risks, irrigation plants, dredges, drawbridges, and conveying operations. If the insured is other than a public utility and an object forms a part of a public utility system, such object being used solely for supplying service to the premises of the insured, then outage insurance may be afforded such an object.

**COMPLETE AND PARTIAL OUTAGE.**—Complete outage means a period which commences at the time when the functions of the object are entirely suspended by accident, and ends when these functions have been or could have been restored wholly or in part, even though as restored the object could not be used for other reasons. Partial outage denotes the period beginning at the time the functions of the object are partially suspended by accident, or following complete outage at the time complete outage is terminated. The period ends and is subject to the same exclusions as complete outage. The commencement of the period for complete outage or partial outage is similar to use and occupancy insurance.

**LIMIT OF LIABILITY.**—The company agrees to pay fixed hourly indemnity for each hour of complete outage of the insured object. Indemnity for the fraction of an hour is adjusted on a prorata basis. In case of partial outage, the indemnity is proportionate to the extent the functions of the object are prevented by the accident. Liability limits are fixed by the amounts specified as the hourly indemnity, and limit per day for the object. A limit is also set for each object beyond which the company's total liability for any one accident cannot be exceeded. These hourly, daily, and aggregate limits apply for the particular object, irrespective of the limits per hour and per accident which may be designated for other objects.

**EXCLUSIONS.**—The company is not liable for loss if: (1) the accident was caused by fire or use of water to extinguish the fire; (2) the machine would not or could not have been used if the accident had not

occurred; (3) for payment for outage resulting from the failure of the insured to use due diligence and dispatch in restoring the functions of the object to which the accident occurred.

**DUTIES OF THE INSURED.**—At the request of the company, the insured may be required to use any spare parts which he owns. Expenses thus incurred either by the company or by the insured at the written direction of the company, are a part of the claim and are considered a part of, rather than an addition to, the limit of loss.

Endorsements are available for the outage coverage for varying limits of indemnity and suspended liability.

**Premium Charges for Steam Boiler and Machinery Insurance.**—Premium charges for boiler insurance are based on the following factors :

1. *Object charge.* Hazards vary with the size and kind and cost of inspection of insured objects, which are classified on the basis of past experience. Rates are assigned for these classifications on the basis of the estimated risk involved. Sufficient insurance should be provided to cover the value of both the insured object and other property which may be damaged in the same accident. The amount of insurance may also cover liability for bodily injuries and deaths resulting from the accident.
2. *Location charge.* A charge is made for each location.
3. *Coverage.* Rates vary with extent of coverage, that is, the limit per accident and kinds of coverage granted.
4. *Indirect damage coverage.* Charges are made for use and occupancy insurance and other indirect damage coverages.

### QUESTIONS AND PROBLEMS

1. *X* had a boiler and machinery insurance policy subject to \$50,000 limit per accident. Discuss the company's liability under the following conditions:
  - (a) As a result of explosion, the boiler was damaged. The cost of repairs was \$2,500. In order to expedite repairs, \$1,250 was paid for overtime work.
  - (b) A fire occurred on *X*'s premises, and the boiler then exploded. The amount of damage to the boiler was \$250.
  - (c) As a result of explosions, *X*'s boiler was completely demolished. In addition, property belonging to *Y* was damaged, and *Z* was injured. The cost of replacing the boiler was \$2,500. *Y* sued *X* and recovered \$1,000. *Z* sued *X* and recovered \$48,000.
  - (d) Due to a boiler explosion, *Y* was injured. *X* paid \$10 for first aid for *Y* without the company's permission.

- (e) The boiler had been temporarily disconnected for repairs. During the course of repairs, the boiler was damaged, causing a loss of \$500 to *X*.
- (f) As a result of inspection showing a very dangerous condition, the company sent *X* written notice of suspension of insurance as of January 16. The boiler exploded on January 20.
2. (a) Compare the clauses of the steam boiler and machinery policy and the fire insurance policy in reference to notice, proof of loss, and subrogation.
- (b) *M*'s premium for a steam boiler policy was \$4,000 at manual rates. How would the amount of *M*'s premium be affected?
- (c) On June 15 *M* insured various objects at three locations under a boiler insurance policy. On July 10 *M* moved one of these articles to another location described in the policy, without notifying the company. On November 10 the object exploded. Discuss the company's liability.
- (d) State the company's liability for the boiler explosion mentioned in problem (c) if notification was sent on August 20.
- (e) Suppose the policy was written covering objects blanket.
- (f) A steam boiler policy was written with blanket coverage. At the end of six months *M* installed another boiler. How would the premium be determined?
- (g) *Q* was a tenant on the first floor and basement of a loft building. *Q* carried insurance on his stock covering fire and extended perils. The steam boiler operated by the landlord exploded and damaged *Q*'s merchandise. The boiler was in the basement of the building. What is the fire insurance company's liability?
- (h) How does deductible coverage apply when two or more objects are involved in the same accident?
- (i) *R* had four boilers on his premises. Three boilers were used throughout the year and one boiler (over 15 pounds pressure) was used 20 days during the year for the last three years. How would the premium be determined for boiler insurance?
- (j) Compare the rules for reserve objects and seasonal objects.
- (k) *G* owned 70% of the stock of the *B Corporation*. *H* was a tenant in a building owned by *B*. *B* purchased steam boiler insurance with \$50,000 limit for accident. *G* and *H* requested that *B* should arrange to add their names to his policy. Under what circumstances, if any, will the coverage be granted?
- (l) Suppose *H* requested \$100,000 per accident.
- (m) What is the standard limit per accident for steam boiler and machinery insurance?
3. (a) List three schedules attached to the boiler and machinery policy to cover different objects.
- (b) *P* owned a boiler which he insured under a boiler and machinery policy with a \$50,000 object limit. As a result of pressure of water

in the boiler jacket, the boiler exploded. Discuss the company's liability for the resulting \$1,000 loss.

- (c) *M* insured his various boilers with the broad coverage. Discuss the company's liability for the following:
    - (1) A cast-iron boiler cracked, permitting leakage of water.
    - (2) *M*'s engineer noticed that a boiler had bulged. Investigation indicated that the accident was due to deficiency of water.
    - (3) *M*'s property was damaged, due to a leak from one of the connections of the steam boiler.
  - (d) Describe in detail the main provisions of the unfired vessels schedule, including specified exclusions.
  - (e) Describe the schedule covering replaceable service tanks.
4. *Z* had a residence blanket boiler policy.
- (a) Explain the company's liability for the following losses:
    - (1) The boiler in the residence heated the house and garage. When the boiler exploded, the house and garage were damaged. As a result of the damage, *Z*'s residence had to be closed for 20 days. *Z* and his family moved to a hotel while the premises were being repaired.
    - (2) Suppose that, in the above problem, four of the rooms in *Z*'s residence could be used at all times by the family.
    - (3) *Z*'s boiler exploded, and *I* was injured while passing *Z*'s house.
    - (4) The boiler cracked, permitting steam to escape.
    - (5) *Z* noticed water escaping from a valve.
    - (6) As a result of pressure, the hot-water boiler suddenly exploded.
  - (b) Compare the blanket and special residence steam boiler coverages.
5. *R*'s steam boiler and machinery policy covered engines, reciprocating pumps, and compressors with a limit of \$50,000 per accident. What is the company's liability for the following:
- (a) A reciprocating pump accidentally broke into several parts.
  - (b) Suppose, in the above problem, that the damage was limited to the loosening of several parts of the pump.
  - (c) *R* noticed that a shaft of one of the objects had suddenly become deformed.
6. *Q* had a steam boiler and machinery policy covering motors and rotating electric machines and transformers. Discuss the company's liability for the following:
- (a) A machine suddenly broke into several parts.
  - (b) Suppose, in the above problem, that damage was limited to a safety link?
  - (c) A motor suddenly burned out.
  - (d) Due to a short circuit, the insulation of an electric machine burned out.

- (e) The shaft of a transformer was suddenly deformed.
  - (f) An electric motor was damaged during repairs.
  - (g) A fuse of a motor burned out.
7. State the type of coverage you would employ for accidents to boilers and machinery in connection with each of the following losses:
- (a) Reduction of business.
  - (b) Accidents to objects causing spoilage of merchandise.
  - (c) Reimbursement for increased operating expenses and intangible losses.
8. *F* had use and occupancy coverage subject to the business valued form for his steam boilers. The period of coverage was 120 days. Liability commenced from the date of accident. The limit of liability was \$1,000 per day.
- (a) What is the company's liability for the following:
    - (1) *F*'s premises were closed for 20 business days. The actual loss was \$900 per day.
    - (2) *F*'s premises were closed for 156 business days.
    - (3) *F*'s premises were partly closed for ten business days, and the estimated loss due to shutdown was 60%.
    - (4) *F*'s business was closed ten days. *F* desired to determine his daily current business by the first business day in each of the three weeks preceding the accident. The amounts of current business for these days were respectively \$1,200, \$1,000, and \$1,100.
  - (b) Compare the business valued use and occupancy form and the business actual loss sustained form.
  - (c) What modifications are available for the use and occupancy forms?
9. (a) A steam boiler and machinery policy was written with consequential damage coverage. What is the company's liability for the following:
- (1) As a result of explosion of a steam boiler, no refrigeration was available in *G*'s storage warehouse. Foods which belonged to *G* and several of his customers were spoiled. *G* claimed that the explosion was not due to his negligence.
  - (2) As a result of fire, the refrigeration in *G*'s premises was damaged and merchandise was spoiled, due to increase in heat.
- (b) What variations in the consequential damage form are available?
  - (c) *L*'s steam boiler and machinery policy was written to include outage coverage. Due to accident to a motor, *L* was unable to use a machine for four hours. During that period there was approximately 75% use of the machine. What is the company's liability?
  - (d) What variation in the outage coverage is available?
10. What factors determine the premium charges for steam boiler and machinery insurance?

## CHAPTER 8

### RAIN INSURANCE

**Need for Rain Insurance.**—In enterprises and events requiring fair weather for success, rain may cause serious financial loss. Only a few of the businesses adversely affected by rainfall need be mentioned. Examples are auction sales, amusement parks, baseball games, carnivals, celebrations, church fairs, dances, excursions, county and state fairs, football games, gasoline filling stations, mercantile sales, parades, prize fights, races, rodeos, and tag days. Rain insurance protects the promoters of these events against financial loss due to rainfall.

The rain insurance policy indemnifies the loss of income or gross profits on events which are dependent upon favorable weather for success when the loss is caused by rain. The word "rain" means precipitation as described by the United States Weather Bureau, and therefore includes rain, hail, sleet, and snow.

Since weather conditions may be predicted, the application for rain insurance must be submitted seven days before the date for which the insurance is desired.

The policy generally provides that the amount of the rainfall, usually one-twentieth, one-tenth, or two-tenths of an inch, be based upon measurement obtained from a government weather station. If the policy provides for measurement of rainfall, the insured is required to make arrangements at his own expense with the weather observer named in the policy to ascertain the measure of rainfall during the period of time covered at the exact location of the rain gauge. If the policy provides for no specific measurement of rainfall, the company's agent must instruct the insured to make arrangements with three disinterested citizens to determine the exact time of rainfall, if any, at the place designated in the policy where rainfall must occur during the period of time covered by the policy.

The term of all business written, except in policies requiring no specific measurement basis, commences and ends on the hour. The minimum period of insurance is three consecutive hours.

No policy for any one day on continuous events may be issued except for a period of consecutive hours. If events are to be held for a definite period of hours at different times on the same day at the same location

and have separate records of income for each specific period, they may be covered as separate events.

Since insurable events present different problems, the following types of policies are available :

Form A : One or more days' income from sources named.

Form B : Abandonment form—Expenses with no income expectancy.

Form C : Fairs and running races—Income from sources named.

Form D : Expense, income, or profits.

Form E : Advance sale of tickets.

Form F : Advertising space—Publishers.

**Form A : One or More Days' Income from Sources Named.**—This form is used to insure (a) events having an income and (b) gross profits on mercantile sales.

The form can be issued for a definite period of consecutive hours each day. The policy can be written subject to one-twentieth, one-tenth, or two-tenths of an inch of rainfall, or no specified amount.

The amount of insurance permitted any one day cannot exceed the following percentages of applicant's portion of a gross income or gross profit if a mercantile event is insured, received from like sources at the last holding of the event on a similar day which was not affected by rainfall.

1. 100% when the policy insures against one-twentieth, one-tenth, or two-tenths of an inch of rainfall.
2. 80%, except on baseball games when the policy insures against no specific amount of rainfall.
3. 50% when the policy covers baseball games against no specific amount of rainfall.
4. Where no previous experience is available, the amount of insurance for any one day cannot exceed the expenses incident to the event or business, for such day, without special authority of the company.

Provisions of the policy are the following :

1. If the income insured for the entire day, regardless of when received, does not equal or exceed the amount of insurance, the company is liable for the difference between the amount of insurance and the amount of income received. When the gross profits on mercantile sales are insured, and the amount figured at the percentage of profit named in the policy, for the entire day, regardless of when received, does not equal or exceed the amount of insurance, the company is liable for the difference between the amount of insurance and the amount of gross profits received.
2. The company's liability is limited to actual loss sustained by reason of rainfall at the specific location provided in the schedule of the

- policy, for measuring that rainfall or at which the rainfall must occur during stipulated hours. The company is not liable for any loss caused by rainfall at any other place or time.
3. If baseball games are covered against no specific amount of rainfall, the liability of the company does not extend beyond the end of five innings, and in case of double-headers, beyond the end of five innings of the first game played.
  4. If outdoor events are covered, the company is not liable unless the participants have arrived in the city or town and are prepared to perform at the time the event is scheduled to commence.
  5. If a mercantile or auction sale is covered, the amount of gross profits for any day is determined by multiplying the amount of cash and credit sales for the entire day by a specific per cent, but the company is not liable for loss on any day unless the insured's place of business remains open to the public during the usual business hours on that day.
  6. In the event that any one-day event other than baseball is postponed to a later day, on account of rainfall, the policy is extended to cover on the postponed date.
  7. In case one-twentieth of an inch or more of rainfall is specified in the policy, the insured must make arrangements with a weather observer to measure with a rain gauge, at the specific location covered, the actual precipitation during the period of time provided in the policy. On demand of the company, a certified record of rainfall must be furnished.
  8. If no specific amount of rainfall is required, the insured must make arrangements with three disinterested reputable citizens to determine the exact time of rainfall, if any, at the place provided during the period of time stated in the policy. On demand of the company, such citizens must furnish a certified statement showing the period of time in which such rainfall occurred.

**Form B: Abandonment Form—Expenses with No Income Expectancy.**—This form protects the insured against loss of expenses from which no income is expected. No specific amount of rainfall is required in the policy, or it can be written subject to one-twentieth inch, one-tenth inch, or two-tenths inch rainfall. The amount of insurance on any one day cannot exceed the actual fixed charges and expenses of the event. Under certain circumstances, coverage for those events may also be obtained under Form D. Provisions of Form B are as follows :

1. If, by reason of rainfall on any one day during the period of time provided for the day, it becomes necessary to abandon or postpone the event to a later date, the company is liable for no more than the actual fixed charges and expenses incident to that event and business covered for the specific day, or for no more than the actual loss sustained, but not exceeding the amount of the insurance. The

- actual loss must have been sustained by reason of rainfall at the specific location and during the hours specified. The company is not liable for any loss caused by rainfall at any other place or time.
2. Any salvage, savings, or gross income from any sources, regardless of when received, which may accrue to the insured, in case of abandonment or postponement, is deducted from the amount of the insurance.
  3. If outdoor events are covered, the company is not liable unless the participants have arrived in the city or town and are prepared to perform at the time the event is scheduled to commence.
  4. If no specified amount of rainfall is required, arrangements must be made with three disinterested citizens to determine the time of rainfall, at the place provided during the period of time provided. The company may demand a certified statement of their findings. If the policy is subject to a specified amount of rainfall, insured must arrange with weather observer to measure with rain gauge at specific location actual precipitation during time provided and give on demand a rainfall record.

**Form C: Fairs and Running Races—Income from Sources Named.**

—This form is used for fairs and running races where similar events have been held over a period for at least three consecutive years. The applicant's proportion of gross income, at the last holding of the event not affected by rainfall on fairs, must have been \$5,000 or more for the entire period, or on running races \$10,000 or more per day.

Form A may also be used for these events to cover the difference between the amount of insurance and the income received. In contrast, Form C is based on an anticipated gross income and covers the difference between the anticipated gross income and income received but not in excess of the amount of insurance.

Generally the amount of insurance required is as follows :

1. On fairs, on any one item of insurance, not less than 50% of the agreed anticipated gross income from the sources of income covered on such item.
2. For running races on any one item of insurance, not less than \$5,000 or the agreed anticipated gross income from the sources of income covered on such item, whichever is the greater amount.

The policy may provide coverage for one-twentieth, one-tenth, or two-tenths of an inch rainfall. Under certain circumstances this coverage may be provided by Form D. Provisions of the policy are :

1. The policy will cover, if by reason of agreed amount of precipitation and rainfall at a specific location provided for ascertaining the measurement, during a specific period of time, actual loss is sustained,

- not exceeding the difference between the gross income from sources named, for that day and the amount of the anticipated gross income provided for such day, nor for more than the amount of insurance provided for that day.
2. The rainfall to the amount required must occur at the specific hours provided. The company is not liable for any loss caused by rainfall at any other place or time.
  3. The insured is required to make arrangements with a weather observer to measure with a rain gauge, at the specific location, the actual precipitation during the time provided. He must furnish the company, on demand, a certified record of the measurement.

**Form D: Expense, Income, or Profits.**—The valued policy, as this form is called, provides indemnification for loss of income (or gross profits on mercantile sales) or for loss of money advanced for expenses for a definite period of consecutive hours each day. In general, this policy provides coverage against one-twentieth inch rainfall, one-tenth inch rainfall or two-tenths inch rainfall. Provisions of this form are:

1. The insured is indemnified against loss by rainfall incidental to the covered event held at a specific location.
2. In the event of the required rainfall, the company becomes liable except as otherwise provided, for the full amount of insurance for that day, but not exceeding one of the following:
  - (a) 100% of the net expenses incurred by the insured that day and lost by rainfall. This test is usually applied where there is no previous experience.
  - (b) 60% of gross income from a similar past event unaffected by rainfall. This limit is applied where there is a record of gross income from similar sources.
  - (c) 60% of gross profit on the last similar day unaffected by rain. This limit is applied to mercantile and auction sales on the basis of past experience.
3. The insured is required to make arrangements with the United States Weather Bureau for obtaining a rainfall reading with a rain gauge during the period of time provided, in which the measure of rainfall is to be determined, and, on demand, furnish the company a certified record of such reading. The company is not liable for any loss caused by rainfall at any other place or time.
4. If a mercantile or auction sale is covered, the amount of gross profits for any day is determined by multiplying the amount of cash and credit sales for the entire day by the stipulated per cent.
5. No other rain insurance is permitted for the event, unless an agreement in writing is added to this form.

**Form E: Advance Sale of Tickets.**—This form indemnifies high schools, colleges, promoters of professional football games for loss of

income from advance sales of reserved seat tickets, provided such tickets are returned unused for refund of purchase price on account of rain. The amount of rainfall insured against is one-twentieth inch, one-tenth inch, or two-tenths inch.

When issuing a ticket which is redeemable, the agreement refund of purchase price of ticket must show the amount of rainfall required, the date, and the hours during which the rainfall must occur. The agreement must be printed on a "Rain Insurance Certificate" which can be detached from the ticket when the "Gate Stub" is detached on presentation of the ticket for admission at the gate. Provisions of the policy are :

1. In the event of a specific amount of rainfall at a stated location during a specific period of time provided for in the policy, the company agrees to indemnify the insured for not exceeding the amount that the insured has to refund the holders of unused, redeemable, reserved tickets sold to purchasers, at not exceeding the purchase price of the tickets, including tax, if any, but excluding the cost of the rain insurance.
2. The insured may at its option sell reserved tickets, the purchase price of which is subject to return in case of rainfall as specified. Reserved tickets, in order to come within the scope of the policy, must meet the following conditions :
  - (a) Each redeemable, reserved-seat ticket must have attached a numbered rain-insurance certificate which clearly indicates on it the specific conditions under which it may be returned for refund, and in such event the amount of the refund.
  - (b) No redeemable reserved tickets can be sold subsequent to seven days preceding the event for which it is issued.
  - (c) Any redeemable reserved ticket returned for refund must be intact and unused and must have the rain insurance certificate attached.
  - (d) No redeemable reserved ticket holder is entitled to a refund unless the unused ticket is presented for refund to the insured within 30 days following the date of the event for which it is issued.
3. The company is not responsible for tickets in the possession of individuals, brokers, selling agents, or other selling agencies who hold or have purchased the tickets for resale.
4. The insured is required to return all rain insurance stubs to the company five days prior to the date of any scheduled event provided for under the policy. Each stub must indicate the purchase price, including tax. The premium due the company must be remitted with the report.
5. The company is not liable for any refund unless the participants have arrived in the place designated for the event and are prepared to perform at the time and on the day the event is scheduled to

commence. The company is not liable in case the event is abandoned for any cause other than rainfall.

6. In case any one-day event covered is postponed to a later day, on account of rainfall in the amount provided, during the period of time covered, the policy is extended to cover on the postponed date.
7. The insured is required to make arrangements with a weather observer, to measure with a rain gauge at the specified location the actual precipitation during the period of time provided, and upon demand, submit to the company a certified record of same. The company is not liable for any loss caused by rainfall at any other place or time.

Form A or Form D may be used to insure anticipated income from sale of tickets, other than redeemable reserved seat tickets.

**Form F: Advertising Space—Publishers.**—Prospective purchasers of advertising space may be deterred by fear that the amount expended may be wholly or partly lost through rain. To meet this problem of publishing and advertising concerns, Form F will cover losses of income from advertising space by indemnifying the insured publisher for an amount which he has agreed to refund the advertiser in case of rain.

When space is purchased, the publisher agrees, in the event of a specified amount of rainfall during the specified number of consecutive hours, to refund to the advertiser the total or part of the amount paid for advertising or to rerun the advertising at reduced cost or free of charge.

Most merchants who advertise in newspapers or other advertising mediums place the advertisement to appear on certain dates, or in certain editions of the publication, because they hope to receive the benefit therefrom at a later date or from a particular sale. For example, a newspaper may be published on Thursday. Merchants who advertise in that edition hope to attract customers for Saturday sales, or for a sale which is to be held at a later date. The sale of space will be facilitated if the advertiser knows that in the event of rain on the date of the sale the amount expended for advertising space will be refunded in whole or in part.

The amount of insurance to be purchased depends upon the agreement the publisher desires to make with the advertiser. The publisher can use the following plans :

1. Return cost of the advertisement.
2. Return percentage of the cost of the advertisement.
3. Reprint the advertisement at a reduced cost.
4. Reprint the advertisement free of charge.

The amount of insurance that will be granted cannot exceed the estimated income to be derived from the advertising space sold under the

agreement for refund or reprint, in case of rain. The amount may be limited, however, if the publisher so desires, to an amount sufficient to refund only a percentage of the cost of the space on which refund is to be made, or it may be limited to the cost of reprinting the advertisements which come under the agreement for reprinting. The provisions of this form are :

1. In the event of a specified amount (one-twentieth inch, one-tenth inch, or two-tenths inch) of rainfall, as recorded by a rain gauge at the United States Weather Bureau or by a government weather observer at a specific location, occurring on any one day during the period of time provided for such day, the company is liable, except as otherwise provided, for not exceeding the amount of insurance specified for that day.
2. The amount of insurance and the premium charged are based on the estimated number of inches of advertising space sold, or to be sold, by the insured in a specific publication to be published in a specific location, on a specific date or dates, at a specific average cost per inch.
3. In the event of rainfall in the amount required, on the day specified, during the period of time provided for such day, the insured will return to the purchaser of advertising space the amount paid for that advertising space, or a specified percentage of it, or will reprint the advertisement at a reduced cost or free of charge.
4. When the publication forms are closed for any issue of the publication, containing advertising space insured, the insured must make an immediate report to the company of the number of inches of such advertising space, and must furnish a marked copy of that particular publication, indicating the specific advertisements covered by the insurance.
5. The liability of the company for any one day is limited to the amount of insurance provided for such day. However, in the event the amount of advertising space sold, figured at the average cost per inch as specified, does not equal the amount of insurance provided for such day, the company will cancel the excess insurance over and above the amount derived, or to be derived from the sale of such advertising space, and will return the premium, pro rata, on the insurance so canceled.
6. The insured is required to make arrangements with the United States Weather Bureau, or with a government weather observer, for obtaining a rainfall reading at the location of the rain gauge, and is required, on demand, to furnish the company a certified record of the measurement of the rainfall. The company is not liable for any loss caused by any rainfall at any other place or time.
7. No other rain insurance is permitted on this event unless an agreement in writing is added to this form.

**General Policy Provisions.**—The various forms are attached to the policy contract. Irrespective of the form attached, the entire rain policy is void unless the premium is received by the company or a duly authorized agent in advance of the period of insurance. The time of the policy is based on standard time at the place of loss. In localities where daylight saving time is used, standard time means daylight saving time.

Unless otherwise provided by written agreement, the contract cannot be canceled by either party. In case of fraud and misrepresentation, loss and suit, and in other respects, the rain policy contains clauses similar to those contained in the fire insurance policy.

**Rates.**—The premium charges for rain insurance are based upon an analysis of the measurement and frequency of rainfall. This measurement is obtained from the reports of the Weather Bureau stations conducted by the United States Government. Obviously, weather conditions vary throughout the United States, and rates, therefore, depend primarily upon the amount and frequency of rainfall in the section for which the policy is to be issued and the effective date of the policy. In addition to this primary consideration, the premium charge depends upon the duration of the policy, the amount of rainfall required before the insured can hold the insurance company liable, the month during which coverage is granted, and variations in the contract conditions of the policy.

A higher rate may also be charged during the summer months for policies covering the afternoon during the so-called thundershower period which has been found to exist in certain sections of the country.

### QUESTIONS AND PROBLEMS

1. (a) Discuss the need for rain insurance.  
(b) *X* purchased a rain insurance policy to cover a sale to be held on April 15. Due to a windstorm, it was impossible to hold the sale. Discuss the company's liability.  
(c) *X* desired to insure an outdoor event that was to take place on June 15. On June 10 he advised his broker to obtain the insurance. What is the possibility of obtaining the insurance?  
(d) *X*'s policy provided for liability if the measurement of the amount of rainfall was one-tenth of an inch. Arrangements were made with the weather observer, who sent the company a bill for this service. What is the company's liability?  
(e) What are the various forms of rain insurance?
2. *Y* wished to purchase a \$1,000 Form A rain insurance policy for a baseball game to be played on July 10, 1951. For the same day in the

previous year the gross income for the baseball game conducted by *Y* was \$2,500. *Y* desired that his form should provide for no specific amount of rainfall. Could *Y* obtain the policy?

3. *M*, the owner of a store, obtained a \$1,000 Form A rain insurance policy for July 10. The policy did not provide for any specific amount of rainfall. Discuss the company's liability for the following losses:
  - (a) As a result of rain, there was a decrease in sales and the profit for the day amounted to \$800.
  - (b) As a result of rain in an adjoining town, there was a decrease in sales and the profit for the day amounted to \$800.
4. *Q* expected to conduct a baseball game on June 15, and obtained a \$1,000 Form A rain insurance policy providing for one-tenth of an inch of rainfall. Discuss the company's liability for the following losses:
  - (a) The day was cloudy and the gross income amounted to \$600. After four innings were played, rain commenced and the amount of rainfall was in excess of the amount required under the policy.
  - (b) The day was cloudy and the gross income amounted to \$600. In addition, due to the breakdown of transportation, the members of the opposing team did not arrive on time. While waiting for the opposing team, rain commenced and the game was abandoned. The amount of rainfall, however, exceeded the amount stated in the policy.
5. *R*, the owner of a store, obtained a \$1,000 Form A rain insurance policy for July 10. The policy did not provide for any specific amount of rainfall. As a result of rain there was a decrease in sales, and the profit for the day amounted to \$800. On account of weather conditions, *R* closed his store two hours before the usual closing time. Discuss the company's liability.
6.
  - (a) *N* expected to conduct a one-day carnival for advertising purposes on April 15. The expenses for the event amounted to \$1,500. In order to protect himself against loss that would result if rain prevented the holding of the event, *N* obtained a \$1,500 Form B rain insurance policy. As a result of rain, *N* was compelled to abandon the carnival. Discuss the company's liability.
  - (b) Suppose that in the previous problem, the *C Company*, which agreed to furnish the entertainment for *N*, allowed *N* to deduct \$100 from his bill.
  - (c) Suppose rain prevented the arrival of the entertainers in the case presented in (a).
7.
  - (a) *County A* desired a Form C rain insurance policy for September 5, when it expected to conduct various horse races. In the previous year, when a similar event was conducted, the gross income was \$4,000 per day. What is the possibility of obtaining the policy?
  - (b) The *A Fair* estimated the anticipated gross income to be \$25,000.

What is the minimum amount for which the Form C policy could be issued?

- (c) The *A Fair*, which had a \$45,000 gross income last year, desires a \$50,000 Form C policy. Is it possible to obtain this policy?
8. The *A Fair* had \$10,000 of insurance under Form C for September 6, based upon the agreed anticipated gross income for the day. The policy was subject to one-tenth of an inch of rainfall. Discuss the company's liability: (a) If the required amount of rain fell, reducing gross income to \$600. (b) If the rainfall occurred in an adjoining county.
9. (a) *P* desired a Form D insurance policy without a clause providing for any definite amount of rainfall. Discuss the possibility of obtaining the insurance.  
(b) Describe the methods used for determining the company's liability under Form D.  
(c) *P* desired to obtain a Form D rain insurance policy covering his business on April 20, 1951. For the same day in the previous year, the gross profit was \$2,800. How much insurance may *P* obtain under Form D?  
(d) *P* obtained a \$1,500 Form D rain insurance policy to cover loss of income on June 10. He obtained a similar policy from another company. Both policies required two-tenths of an inch of rainfall. The required amount of rainfall occurred. State the companies' liability under these policies.
10. (a) *S* obtained a \$1,200 Form D rain insurance policy, subject to two-tenths of an inch of rainfall for possible loss of profit on September 10, 1951. On September 10, 1950, the profit for the day was \$2,000. On September 10, 1951, there was more than two-tenths of an inch of rainfall, and *S*'s profit for the day was \$1,500. Discuss the company's liability.  
(b) Suppose *S* had purchased a Form A policy, what would be the company's liability?
11. (a) What is the purpose of the Form E rain insurance policy?  
(b) The *Z Club* expected to conduct a football game on November 15. The ticket provided for refund in case rain prevented the holding of the event. The printed price of the ticket, including governmental tax, was \$3.60. The club obtained a \$10,000 Form E rain insurance policy and reported a sale of 4,000 tickets. The football game was canceled because of rain. On November 15 refunds were made for 2,000 tickets sold November 1, for 1,100 tickets sold November 2, and for 500 tickets sold November 10. In addition, 200 tickets purchased on November 1 were refunded on December 20. Discuss the company's liability.  
(c) Suppose that, in the above problem, the opposing team was prevented by weather conditions from making an appearance at the field.

- (d) Suppose an announcement had been made that the football game was postponed to November 22, and the required amount of rainfall occurred that day.
  - (e) What forms may be used to insure football games against loss of income from rain?
12. (a) How may newspaper publishers use rain insurance policies to increase their sales of advertising space?
- (b) Explain the basis for determining the amount of insurance for Form F.
- (c) A newspaper publisher desires a Form F insurance policy providing for the company's liability, irrespective of the amount of rainfall. Discuss the possibility of obtaining the policy.
- (d) The *M Newspaper* purchased a Form F rain insurance policy for May 28. The amount of insurance was based upon estimated sale of space amounting to \$3,000. The amount of space actually sold, however, was \$2,100. What was the basis for determining the premium?
- (e) *Newspaper M* obtained a \$2,000 Form F rain insurance policy covering May 28. *M* obtained an additional policy from another company for \$1,000, covering the same event. Describe the liability of the two companies.
13. (a) *Q* obtained a rain insurance policy covering an event to be held on June 15. The specified amount of rainfall occurred on the date of the policy, but the premium was not received until June 17. Discuss the company's liability.
- (b) *Q* obtained a rain insurance policy covering an event to be held on June 15. *Q* paid the premium on June 5, and on June 10 he notified the company that he desired to cancel the policy. What were *Q*'s rights to a return premium?
14. Discuss the basis for premium charges for rain insurance policies.

## CHAPTER 9

### HAIL INSURANCE—GROWING CROPS

**Need for Hail Insurance.**—One of the serious hazards of the farming industry is the possible loss of crops through hail. Hail losses occur all over the country, but frequency, intensity, and damage are greater in some areas than in others. Crop losses from hail may be singled out from other hazards and for all practical purposes are inescapable. Consequently hail insurance serves an important need and is the only type of crop insurance now written to any extent.

The losses from hailstorms vary greatly from year to year. The losses are heaviest, however, in those regions where farmers concentrate on one crop, and a hailstorm during a critical period in the growth of the plants is sufficient to cause a ruinous loss. In these regions the tendency is to insure the main crop.

A distinctive feature of hail insurance is the period of coverage. The policy is not written for a specific period of time, as are most other forms of insurance. The coverage is written either for the period of crop development or until the crop is completely harvested.

**The Application.**—The policy of hail insurance is strictly a property damage coverage. The basis of the policy is an application which is attached to the policy when issued and is, therefore, made a part of the contract.

Provisions of the policy are as follows:

1. The policy commences 24 hours after the application is signed by the insured and the agent of the company, and continues until the crop is harvested or otherwise disposed of, unless the crop is destroyed. The expiration date is the 15th of October unless otherwise provided.
2. The company is liable for 48 hours after receiving the application at its policy-writing office. The company must notify the applicant if it desires to terminate all liability and the liability of the company is terminated upon the receipt of the notice by the applicant for the insurance.
3. The application contains the following important information:
  - (a) The insured's interest in the crop to be insured.
  - (b) The number of acres insured.

- (c) The kind of crop.
  - (d) If the policy covers fruit or vegetables, the number of and variety of trees or plants.
  - (e) The age of trees or plants.
  - (f) The amount of insurance per acre required.
4. The insured warrants that the crops described are all the crops that he owns in the section or location of the property described, or in adjoining locations. If there are any other locations, the application must also contain a description of these.
  5. The insured certifies that the crops upon which insurance is applied for have not been hailed upon previous to the time of signing of the application.
  6. Insurance covering tree fruits takes effect when the fruit has set and shows signs of a normal crop, not diseased. Injury to trees, blooms, or blossoms is not covered, whatever the cause.
  7. The policy does not cover damage to the vine, plant, or bush, or leaves, unless the damage affects the crop, and then only to the extent the product has been damaged, unless specifically described and insured, as nonbearing vines, plants, or bushes.
  8. If corn, corn fodder, or ensilage corn is covered, the insurance takes effect when from an outside inspection the second joint of 75% of the plants is clearly visible above the ground. Cornstalks or leaves are covered when and to the extent that the product is damaged. If the crops are planted, grown, and specifically described in the policy schedule as fodder or ensilage corn, the policy covers the loss or damage to cornstalks or leaves but not to the grain produced on these crops.
  9. If cotton is covered in the policy, the insurance takes effect when the crop is up and shows a stand. The policy covers loss or damage to cotton stalks, leaves, or squares and blooms only when and to the extent that the product is damaged. The policy does not cover cotton stalks, leaves, or squares and blooms after 12 o'clock noon, September 15, prior to the expiration date of the insurance. Not more than one-third of the amount of insurance applied for takes effect before 12 o'clock noon of the 15th day after the cotton was up to a stand. Not more than two-thirds of the amount of insurance applied for takes effect between 12 o'clock noon of the 15th day and 12 o'clock noon of the 30th day after the cotton insured was up to a stand. The company is liable only until the cotton has matured, that is, until the bolls have opened.
  10. The insurance of the policy covers only marketable commercial crops. The company is not liable for loss or damage to culls, blighted, worm-cast, or diseased crops of any character, nor crops which have for any reason been abandoned.
  11. Crops which have been cut, dug, picked, pulled, or harvested are not covered wholly or in part.

12. The insured must keep, and when required he must submit, a complete record of the cutting, digging, or otherwise harvesting of any crop described in the schedule. Violation of this provision frees the company from liability.
13. If a crop may be reset, replanted, or regrown and matured during the insured season, the company's liability for crop losses is limited to the cost of resetting or replanting.
14. The company is liable only when the loss from hail equals at least a stipulated percentage, such as 5% or 10%, of the particular risk at the date of the loss.
15. The company is not liable for loss or damage to any crop or part of crops insured under the policy: (a) if the loss or damage results from any other cause combined with hail; (b) if the loss is the result of hail, but the crop has been so injured or damaged from any other cause or causes as to preclude a profit over and above the actual cost of harvesting, storing, and marketing of such crop; (c) if the hail damage occurred because of the neglect or failure of the insured to cut, dig, pick, pull, or otherwise harvest matured crops.
16. In case the exact acreage of any crop covered is less than the total acreage stated in the insured's application, the insurance will be reduced in that proportion which the ascertained deficiency in acreage bears to the total acreage stated in the application. The company will refund to the insured the premium, if any, paid on excess insurance. When the exact acreage of any crop insured is greater than the total acreage stated in the insured's application, the amount of insurance per acre will be determined by dividing the total amount of insurance applying to the crop by the total number of acres comprising the crop. If there is disagreement as to the correct acreage of any crop covered under the policy, the insured must furnish, without cost to the company, a survey made by a competent surveyor showing the exact acreage of the disputed crop.
17. Any cutting, digging, harvesting, or other reduction of the crop value for any reason except hail damage reduces the liability of the company proportionately.
18. In case of hail loss, the insured may not abandon the crop to the company.
19. Unless the crop can be reset, replanted, or regrown, the company pays the same per cent of the insurance as the hail damage bears to the insured crop value.
20. Within a stipulated period after crop damage from hail, if the loss exceeds the stipulated percentage, the insured must notify the company by registered mail of the policy number, the exact time of loss, any other hail insurance, and the probable loss percentage. Failure to give notice in exactly this form may release the company from liability. Should the loss be below the required percentage, the company is not only freed of liability, but the insured must also pay

all expenses incurred in investigating the claim. In conjunction with the hail coverage, a tobacco grower can obtain an endorsement providing that the policy covers hail and wind when such hail is accompanied by wind.

**Minimum Loss and Deductible Clauses.**—Many farmers desire protection only in case of heavy loss, and do not desire coverage for slight damage. To meet these requirements, the insurance company issues the following loss clause and deductible clauses: (1) 25% Minimum Loss Clause, (2) 10% Deductible Clause, (3) 20% Deductible Clause, (4) 25% Accumulative-Deductible Clause, (5) Premium Deductible Clause. Illustrations of adjustments under the various clauses will be shown subsequently.

1. **TWENTY-FIVE PER CENT MINIMUM LOSS CLAUSE.**—This clause provides that the company is not liable for any loss or damage by hail to the crops insured unless loss or damage or accumulation of loss or damage during the term of the insurance equals or exceeds 25% of the particular crop.

If the insured files a claim for loss or damage by hail only, and the loss or damage at the date of occurrence of the hail is less than 10% of the particular crop, the insured must pay to the company the expenses incurred in investigating the claim. This latter provision also applies to the three clauses that follow.

2. **TEN PER CENT DEDUCTIBLE CLAUSE.**—In the event any crop insured is damaged or destroyed by hail only, there shall be deducted 10% of the total insurance under the policy applying to the particular crop so damaged. This deduction, however, applies only to the first loss that exceeds 10% of the particular crop so damaged, and does not abrogate the clauses applying to minimum loss in the policy.

3. **TWENTY PER CENT DEDUCTIBLE CLAUSE.**—If any crop insured is damaged or destroyed by hail only, 20% of the amount of insurance is deducted from the first loss only that exceeds 20% of the particular crop so damaged. This deduction does not abrogate the clauses applying to minimum loss in the policy.

4. **TWENTY-FIVE PER CENT ACCUMULATIVE-DEDUCTIBLE CLAUSE.**—Under this clause the company is not liable unless the loss or damage, or accumulation of loss or damage during the term of the insurance, exceeds 25% of the insurance. This deduction is made from the first loss or accumulated losses that exceed 25% of the particular crop so damaged. This deduction does not abrogate the clause applying to minimum loss in the policy.

5. **PREMIUM DEDUCTIBLE CLAUSE.**—This clause provides that in the event any crop covered is damaged or destroyed by hail only, the maximum liability will not be in excess of the difference between the total liability on the kind of crop covered and the premium paid on that crop. The first loss or losses up to the amount of the premium paid on the kind of crop covered is borne by the insured. All losses, after the deduction of this premium, will be paid in full by the company. This endorsement does not abrogate the clauses referring to the minimum loss. If the insured files a claim for damage and the loss or damage caused by hail only is less than the amount of the premium paid on the kind of crop covered, then he must pay all the expenses incident to the investigation of the claim.

**Premium Charge.**—The cost of hail insurance per acre varies widely. One common rate might produce unsatisfactory results, as the hail hazard cannot be said to be similar throughout the country. Experience has been gathered by the companies, and rates formulated on the basis of type of crop and location of the risk. In addition, there is a limit per acre of liability assumed by the insurance company in this line of property insurance.

**Adjustments.**—Provided that the crop is not grossly overinsured, market values in themselves are not considered in adjustment of hail losses. The only question of fact that arises in an adjustment of hail loss is the question of percentage of crop damage. If, on the average, in a certain field 20 stalks of wheat out of each 100 are damaged, this is considered a 20% loss for that particular acreage. This percentage is then applied to the amount of insurance applicable to the damaged portion, and the result constitutes the amount payable under the policy. In the final analysis, therefore, the hail policy is a full 100% coinsurance form. In order to illustrate this principle, let us assume the following conditions :

40 acres of grain insured at \$10 per acre (amount of insurance) . . . . .	\$400.00
10 acres damaged 60% by hail and the balance of the acreage not damaged.	
Market value of an undamaged crop is \$15 per acre.	
Adjustment of loss:	
Total coverage on 10 acres at \$10 per acre . . . . .	\$100.00
Damage . . . . .	60%
	\$ 60.00
Loss payable under the policy . . . . .	\$ 60.00

To illustrate adjustment under the various clauses, assume a \$30,000 hail policy on a 100-acre apple orchard at \$300 per acre. The adjuster picks 4,000 apples which are analyzed as follows on the basis of United States standard grades from a hail-peck standpoint :

	No. of Apples	Percentage of Damage Allowed	Total Average
Hit but not damaged . . . . .	100	—	—
Reduced by hail from U. S. No. 1 to No. 2	600	35%	210
Reduced by hail from U. S. No. 1 below No. 2 grade . . . . .	2,000	70%	1,400
Reduced by hail from U. S. No. 1 to vinegar or evaporator stock . . . . .	1,100	90–100%	1,100
Reduced by hail from U. S. No. 2 to vinegar or evaporator stock . . . . .	200	35%	70
Total apples . . . . .	4,000	Grand total . . . .	2,780

Under the standard policy, the average percentage of loss would be 69.5% ( $2,780 \div 4,000$ ), and the amount payable \$20,850 (69.5% of \$30,000). The remaining insurance in force amounts to \$9,150.

Using the same facts for 10% deductible clause, 10% is deducted from 69.5% of the loss, leaving a loss payable of \$17,850 (59.5% of \$30,000). The remaining insurance is thus \$12,150.

Similarly, a 20% deductible clause would reduce the loss percentage to 49.5% and the amount payable to \$14,850, leaving \$15,150 insurance in force. Given a 25% deductible clause, the loss ratio is 44.5%, the company's liability \$13,350, and the remaining insurance \$16,650.

Finally, a 25% minimum loss clause provides for the full payment of the \$20,850 loss (69.5% of \$30,000), since the loss percentage exceeds 25%. The remaining insurance in force amounts to \$9,150.

In case the farmer is not satisfied with the company's adjustment, he has the privilege of calling in an inspector of the United States Department of Agriculture. If the inspector disagrees with the company adjuster, the company will pay the higher amount.

### QUESTIONS AND PROBLEMS

- Explain the need for hail insurance.
  - Compare the policy period for hail insurance and the policy period for fire insurance.
- Discuss the company's liability for the following :
  - M* signed an application for a \$5,000 hail insurance policy on May 15. On the same day, but before the company received the application, *M*'s crop was damaged by hail, causing a \$2,500 loss.
  - What if the application had been received by the company three days before the hailstorm?
  - M* signed an application for a \$2,500 hail insurance policy on May 1. Upon receiving the application on May 2, the underwriter of the company requested the agent to send a notice that it did not

desire to insure *M*, but the notice was not sent. On July 10 *M*'s crop was damaged by hail, causing a \$1,000 loss.

- (d) *M*'s crop was insured against hail damage for \$5,000. On October 16, *M*'s crop was damaged by hail, causing a \$1,000 loss.
- (e) When *M* signed an application for hail insurance, he did not inform the company in his application that he owned an adjoining farm and that, previous to signing the application, the crop upon which insurance was desired had been hailed upon.

3. Discuss the company's liability for the following losses :

- (a) *Q* was insured against hail damage for \$2,500. Trees were damaged by hail causing a loss of \$600.
- (b) *R* purchased a \$1,000 hail policy on his vegetable crop. As a result of hail, vegetables valued at \$400 and berry bushes valued at \$200 were destroyed.
- (c) *S* insured his crop of corn against hail damage for \$1,500. After the second joint of nearly all the plants was visible above ground, *S*'s crop was destroyed by hail.
- (d) *T* insured his cotton crop against hail damage for \$1,500. After the bolls had opened, the crop was damaged by hail.
- (e) *F* insured his vegetable crop for \$1,500. On account of market conditions, *F* abandoned the cultivation of the crop, which was subsequently destroyed by hail.
- (f) *H* purchased a \$1,500 hail policy on his vegetable crop. After *H* had picked the vegetable crop, it was damaged by hail, causing \$1,000 loss.
- (g) *P* insured his vegetable crop against hail damage for \$4,000. After *P* had picked approximately half of his crop, the balance was damaged by hail. *P* kept no records of his harvesting of the crop.
- (h) *M* insured his vegetable crop against hail damage for \$1,000. The crop was completely destroyed by hail, but there was time for the insured to replant the crop. The actual cost of replanting would have been \$250.
- (i) *R* insured his apple crop for \$2,500 against hail damage. *R* suffered a \$100 loss caused by hail.
- (j) *S* insured his vegetable crop against hail damage for \$1,500. Although the crop was ready for picking on July 15, *S* failed to do so. On July 20, *S*'s crop was completely destroyed by hail.
- (k) *A* insured his apple crop against hail damage for \$5,000. In his application he stated that his acreage was 100 acres. His entire crop was lost, due to hail. The actual acreage of *A*'s apple orchard was 80 acres.
- (l) *A* insured his vegetable crop against hail damage for \$1,500. After a hailstorm, *A* claimed a loss of \$300. After examination by the company, however, the amount of agreed loss was found to be \$60.

- (m) *Z* insured his apple crop against hail damage for \$5,000. The policy was written with a 25% minimum loss clause. *Z*'s crop was damaged by hail, causing \$1,000 loss.
  - (n) What is the company's liability in problem (m) if there is an additional \$500 loss during the term of the policy?
4. Explain the company's liability in the following cases :
- (a) *V* insured his apple crop against hail damage for \$2,500. The policy was written with a 10% deductible clause. *V* suffered three losses by hail as follows : \$200, \$600, and \$1,250.
  - (b) Suppose the policy was written with a 20% deductible clause.
  - (c) What if the policy was written with a 25% accumulative deductible clause?
  - (d) Suppose the policy was written with a premium deductible clause. The premium paid was \$200.
5. Analyze the basis for the premium charge for hail insurance.

## CHAPTER 10

### LIVESTOCK INSURANCE

**Need for Livestock Insurance.**—The need for protection against loss through the premature death of animals, such as cattle and horses, has always been recognized. As a result of this need, livestock insurance has been developed. Few insurance companies write this form of insurance. With the introduction of general livestock insurance, there has also been provided special insurance for race horses. Owners of expensive race horses no longer need fear heavy loss due to premature deaths of the animals.

Since the livestock policy is a form of life insurance, the animal must be in good health when proposed for insurance and in an insurable condition on the effective date of the policy. While animals will not be insured for more than their actual cash value, appreciation in value by reason of prize-winning performances may be given recognition by the company. Of the two important forms, Form No. 1 is used to cover such animals as race horses, saddle horses and polo horses, while Form No. 2 is used to cover such animals as cows and farm horses.

**Form No. 1.**—This policy, which is known as the “mortality floater policy,” requires that each race, saddle, or polo horse must be fully described as to name, sex, age, color, sire, and dam. Upon approval of the application, the company insures each animal in accordance with the provisions which are given below :

**COVERAGE.**—Losses resulting from death caused directly by disease, accidental injury, fire and lightning anywhere within the boundaries of the United States or Canada are covered. Except as otherwise provided, protection continues during transportation by rail, ferry, or enclosed and properly equipped van type of motor truck.

**VOLUNTARY DESTRUCTION.**—Coverage of losses resulting from voluntary destruction of animals to relieve suffering is granted only under two special circumstances :

1. The company has given written consent signed by its general agent for destroying the animal, or
2. The animal is injured and destroyed on a public highway or at a race meeting or other public event. To bind the company, however,

the destruction must occur within a stipulated number of hours after injury, and then only after a local licensed veterinarian has certified the necessity of killing the crippled animal.

**EXCLUSIONS.**—No liability is assumed for the following losses unless specifically covered by endorsement obtained prior to the destruction of the animal or animals.

1. Where the animals are being transported in any type of motor truck unless especially constructed for transporting horses, that is, a regular horse van. The policy also permits the use of any ordinary open truck or trailer properly constructed for transporting horses, the four sides of which must not be less than six feet high and in which the horses are cross-tied, with a heavy rope hitched around the pole to prevent an animal from elevating the head higher than it is held in normal standing position. A further condition is that the insured must furnish suitable facilities for safe loading and unloading of animals.
2. Where the animal or animals are shipped by motor truck van for a distance requiring more than 18 hours' travel, unless the animals are unloaded at the end of each 12 hours' travel and are fed, watered, and rested for at least six continuous hours.
3. During transportation by aircraft.
4. The expense of removing or disposing of the remains of animals.
5. Depreciation in value of animals becoming unfit for duties intended.
6. Death of any animal put to any use other than stated in the application upon which the policy is based.
7. Death of animal not in absolute good health when the policy was delivered.
8. Death caused directly or indirectly by invasion, insurrection, riot, revolution, civil war or commotion, or military or usurped power.
9. Death of any animal which dies from an unknown cause if the insured fails to permit the company to have a post-mortem examination made by a veterinarian of its own selection, and then only if the post-mortem report shows the cause of death to fall within the coverage of the policy.
10. Death of any animal caused directly or indirectly by the carelessness or neglect of the insured, his agent, employees, or bailees.
11. Death of any animal from injuries originating before the acceptance of the application, the issuance and delivery of the policy to the applicant, and the payment of premium.

**LOSSES NOT COVERED EXCEPT BY ENDORSEMENT.**—Unless otherwise provided by endorsement, the company is also not liable for the following:

1. Death of any animal "unnerved" through the operation of neurotomy for lameness.

2. Death of an animal which has been castrated, or fired, or subjected to any other operation during the life of the policy.
3. Deaths of animals used in polo, hunting, jumping, hurdling, steeple-chasing, point-to-point racing, or schooling for those uses.
4. Death of any animal turned out on pasture without daily supervision and care.
5. Death of any mare directly or indirectly from its use for breeding.
6. Destruction of any animal exposed to or contracting any contagious or communicable disease, whether or not the destruction is by order of the Federal authority.

**DUTIES OF THE INSURED.**—The insured must comply with the following requirements:

1. On request, the insured must grant the company possession of such of the dead animal's organs, limbs, or tissues as may be required for preservation or evidential purposes.
2. If the animal's skin is punctured with a nail, or if wounds are otherwise incurred, the insured is required to have the animal immediately treated by the administration of tetanus antitoxin by a qualified veterinarian.
3. Upon the sickness or injury of an insured animal, the insured must employ at his own expense the services of a licensed veterinarian and use all means to preserve the life of the animal.
4. Notice of the animal's sickness or death must be sent immediately by telegraph to the company at its designated office. This notice must specify the number of the policy, the name of the animal, the cause and time of its illness or death, and the name and address of the veterinarian in attendance.
5. Except when required by law or ordinance, the insured may not dispose of the animal's carcass before the company has examined the carcass or given permission for its disposal.

**SWORN STATEMENTS OF LOSS.**—The insured must submit a sworn statement of the following facts within a specified period, such as 30 days, unless extended in writing by the company:

1. Cause and time of death, according to the knowledge and belief of the insured.
2. The use to which the animal was put, up to the time of injury or death.
3. The date and form of the first notice sent to the company of the sickness or death of the insured animal.
4. The company's representative, if any, who identified the animal.
5. Disposition of the carcass.
6. The interest of the insured and all others in the animal, and its cash value at the time of illness or death.

7. The name and address of the vendor from whom the insured purchased the animal, and the date and cost of acquisition.
8. All other insurance on the animal, whether valid or invalid.
9. A full history of the animal's sickness or injury, including the date of discovery and the age and exact location of the animal at the time; a complete description of the markings and color of the animal; the names and addresses of veterinarians in attendance; and the dates of their first and subsequent visits.
10. Nature and dates of operations undergone by the animal during and prior to the policy period.

This signed statement of the insured must be accompanied by a signed and sworn statement by the attending veterinarian regarding the following facts :

1. Day and hour of his first visit in connection with the sickness or injury which led to the animal's death.
2. Number and dates of his subsequent visits.
3. Exact time of death.
4. A full description of the disease or injury from which the animal died.
5. All important medical facts, and what other diseases were complicated with the disease or injury that caused the death.
6. The number of times that he attended the animal in prior illness or injuries, giving the dates and full particulars.
7. What evidence there was of the animal's having undergone an operation of any kind.
8. A statement as to whether or not the death of the animal was in any way caused by the way it was housed or nursed.
9. A statement of the apparent age, sex, height, color, and markings of the animal.
10. A statement as to whether or not he held a post-mortem examination, and if so the date and detailed accounting of his findings.

In addition, the insured must furnish affidavits by disinterested persons of identification of the carcass, in the event that no representative of the company has viewed it.

**OTHER INSURANCE.**—Unless provided by endorsement, procurement of other insurance, whether valid or invalid, voids this policy. When the company has given consent to other insurance on the animals, however, the company's liability is limited to that proportion of the loss which the amount of the policy bears to total insurance, irrespective of whether the other insurance is valid and written by solvent companies or not.

**TITLE.**—The unconditional and sole ownership is an express condition of the contract. Furthermore, the company is not liable, unless otherwise provided, under these conditions :

1. Assignment of the policy before loss.
2. Animals encumbered by chattel mortgage.
3. Title in dispute or subject to litigation.
4. Any change, except by death of the insured, in interest, title, or possession, whether by voluntary action of the insured or by legal process or judgment.

**MEASURE OF LIABILITY.**—The company's liability is limited to the lower of the following amounts :

1. The amount for which the animal is insured in the schedule attached to the policy.
2. Actual cash value at the time of loss.

Like the fire insurance policy, the livestock policy contains clauses referring to (1) appraisal, (2) the right of subrogation, (3) the examination of the insured and production of books, (4) fraud before or after loss, and (5) commencement of suit.

**Form No. 2.**—This form, which is known as the "general livestock policy," is used for such animals as cows and farm horses and contains provisions comparable to Form No. 1.

**COVERAGE.**—Losses resulting from death caused by disease, accidental injury, fire and lightning are covered when occurring on the premises or temporarily elsewhere in the vicinity of the premises described in the policy. Liability may be extended by written endorsement for losses from death taking place anywhere within the limits of the United States or Canada. There is no coverage for loss caused by voluntary destruction.

In addition to the two forms described, various endorsements and policies are available to meet special needs. The following endorsements and policies will be discussed :

1. Excluding Fire and Lightning.
2. Herd.
3. Deductible.
4. Cumulative.
5. Thirty-Day Foaling.
6. Exhibitors' and Breeders'.

**1. EXCLUDING FIRE AND LIGHTNING.**—If the insured desires, he can exclude the hazards of fire and lightning from the policy and thus obtain reduction in premium. The policy will then be endorsed, providing

that the coverage granted by the policy against the hazards of fire and lightning is deleted, and that the coverage is limited so that the company will not be liable in any event for loss by the death of any animal when the death is caused directly or indirectly due to these perils.

2. **HERD.**—As an alternative to specific insurance on individual animals for designated amounts, an entire herd may be covered in one policy. Thus, a single policy may be purchased for a commercial dairy herd; a breeding herd of pure bred, grade dairy or beef cattle; or a breeding herd of pure bred or grade horses.

3. **DEDUCTIBLE.**—For owners of large herds, a policy may be written with a deductible clause, under which the insured assumes a percentage of the liability. This clause may apply to each animal described or to animals grouped under a blanket form of contract with average limits per head. If preferred, a combination of specific and blanket coverage may be obtained.

4. **CUMULATIVE.**—The policy may cover cattle which are being fed for the market. As the value of such animals will increase over time, the cumulative endorsement provides that the company's liability on the 30th day following the date on which the policy becomes effective will automatically increase 10%. In addition, on each succeeding 30th day, the amount of insurance will automatically increase another 10%. The insurance must be written on the feeding cattle for the full period of time that the owner of the cattle expects to maintain them on feed. There can be no more than five increases, even if the policy is written for a term longer than six months.

The monthly increase of 10% is made on a per head basis, and calculated on the amount per head originally insured. However, the per head liability is limited to the actual value at the time of loss.

As the policy endorsement is written to cover a stipulated number of head of feeding cattle, in event of loss if more than the stipulated number of head of cattle are owned by the insured, of the class insured by the endorsement, then the company will not be liable for a greater proportion of the amount specified as applying to any animal than the proportion which the number insured bears to the total number of cattle of the class owned by the insured at the time the loss occurs.

The endorsement covers on the home location only, and the transportation hazard is therefore not covered. Thin, emaciated cattle and calves weighing less than 350 pounds are not insurable. There is no coverage for feeding cattle if the loss is due to (a) calving, (b) abortion, (c) castration, (d) dehorning, (e) theft, or (f) mysterious disappearance.

5. **THIRTY-DAY FOALING.**—This coverage is a full mortality contract, including death resulting from foaling or abortion for a term of 30 days, commencing on the day the mare begins to foal and expiring on the thirtieth day following. The maximum insurance granted is usually 75% of the animal's value. The insurance application must reach the home office at least 15 days prior to the expected date of foaling.

6. **EXHIBITORS' AND BREEDERS' POLICY.**—Two forms are available. One form protects exhibitors and breeders against the loss incurred by the deaths of animals resulting from fire, lightning, windstorm, and tornado. The animals are covered wherever they may be within the limits of the United States and Canada, whether inside or outside fair or other buildings, or in transit by rail, ferry, transport, or properly equipped motor vehicle.

The second form is wider, as it covers losses resulting from fire, lightning, windstorm, tornado, and death by external, accidental, and violent means only of animals, excluding polo horses, race horses, hunters, jumpers, and steeplechase horses.

In contrast to the full mortality policy, the exhibitors' and breeders' policy forms do not cover death from disease, and hence do not require a veterinarian's certificate.

**Fur Farm Insurance.**—One of the farm industries that has recently developed in the United States is known as fur farming. The owners of these farms raise animals, such as mink and fox, to sell to the fur market. Protection against loss due to named perils is available against loss of animals raised on fur farms.

The following perils are covered by the policy :

1. Fire and lightning.
2. Tornado, cyclone, windstorm, and hail.
3. Earthquake and flood.
4. Burglary, robbery, theft, and holdup.
5. Strikes, riots, civil commotion.
6. Collision, derailment, or overturning of conveyances while the insured property is being transported therein.
7. Collapse or subsidence of bridges.
8. Death or injury as a result of being accidentally struck or run over by any vehicle while in the custody of the insured, excluding, however, death from disease or natural causes.
9. Escape of any animal or animals as a direct result of one of the perils insured against.

There is no coverage for

1. Infidelity of insured's employees or persons to whom the insured property is entrusted.

2. Loss or damage caused by war, invasion, hostilities, acts of foreign enemies, civil war, rebellion, insurrection, military or usurped power, or by order of any government or public authority.

The policy is a valued policy, and a stipulated maximum amount is stated for each animal insured. In view of the fact that the mortality hazard decreases after the animals are one or more months old, the liability of the company is increased, depending upon the number of months after birth of the animal. The limitations are as follows :

- On any animal less than one month old—"NIL."
- On any animal one month old or more—20% of the stated amount of insurance for each animal.
- On any animal two months old or more—40% of the stated amount of insurance for each animal.
- On any animal three months old or more—60% of the stated amount of insurance for each animal.
- On any animal four months old or more—80% of the stated amount of insurance for each animal.
- On any animal five months old or more—100% of the stated amount of insurance for each animal.

**Turkey Insurance.**—The susceptibility to loss of growers of turkeys has led to the introduction of turkey insurance. The policy covers the following perils :

1. Fire, lightning, tornado, windstorm, sleet, rain, blizzard, snow, hail, flood, and rising water, including smothering and freezing as a direct result of these perils.
2. Collision, upset, or overturning of vehicle while being transported by land conveyances.

Loss is limited to a stipulated amount for each turkey, increasing with age; that is, under one month old; one, but not exceeding two months old; two, but not exceeding three months old; three, but not exceeding four months old; four, but not exceeding five months old; and over five months old.

Recovery cannot exceed the market value on the range at the time of the loss. The policy is issued on the assumption that the entire number of turkeys at the location specified in the policy will be insured. Therefore the policy provides that if the insured has a greater number of turkeys than stated in the policy, in case of loss the limit will be reduced in the same proportion that the number named in the policy bears to the total number owned by the insured. In order to avoid payment of small losses, the sum of \$30 is deducted from the amount of each and every loss.

Under the policy, there is no liability under the following conditions :

1. To turkey poults placed on range under six weeks of age on account of greater susceptibility to storm loss prior to that time.
2. When the range is not equipped with turkey shelters, as total loss might occur during a storm in the absence of such protection.
3. Where regular attendants are not provided.
4. To loss occasioned by smoke due to faulty operation of brooder house stoves.

The growing period of turkeys usually ends about October 20. If liability under the policy extends beyond October 20th, as a protection against climatic conditions, the insured must provide shelter houses which can be enclosed that will give each turkey not less than one square foot of floor space.

Sometimes a policy is issued to cover on turkeys, against death only, resulting from fire, lightning, windstorm, hail, and blizzard, including smothering as a direct result of these perils. The policy provides that the company will not be liable for loss occasioned by flood, disease, freezing, or any other cause of loss not specifically assumed. This policy form is subject to a 10% deductible clause. Instead of using a deductible clause, a clause may be used which provides that there will be no liability unless the loss exceeds 1% of the total number of turkeys owned by the insured at the time of the loss.

### QUESTIONS AND PROBLEMS

1. (a) Discuss the need for livestock insurance.  
(b) *M*'s horse was worth \$2,500. The horse won a number of races, and *M* desired to insure the animal for \$5,000. Discuss the possibility of obtaining this amount of insurance.  
(c) What is the essential information required in order to insure an animal?
2. *S* insured his horse for \$1,000. Discuss the company's liability for the following contingencies :
  - (a) As a result of a barn's being struck by lightning, the animal was injured. *S* spent \$100 to cure the horse.
  - (b) While engaged in a race, *S*'s horse was severely injured. Ten hours later the animal was destroyed in order to prevent its further suffering.
  - (c) While being transported in an ordinary truck, the horse was killed in a collision with another truck.
  - (d) *S*'s horse was being transported on a motor vehicle especially constructed for transporting horses. The truck had been driven for a period of 20 hours when the driver discovered that the horse had become sick. The animal ultimately died.

- (e) As a result of an accident, the horse was killed. *S* spent \$50 for the removal of the remains of the animal at the time of the accident. The value of the horse was \$800.
  - (f) During a riot the animal was injured and subsequently died.
  - (g) The horse was used for various purposes beside horse racing. As a result of disease, the animal died.
  - (h) The horse died from disease during the period specified in the policy. On investigation, the company discovered that the animal had not been in good health when the policy was delivered.
  - (i) Because of negligent handling of the horse by *S*'s employee, the animal became sick and died.
  - (j) While the horse was being used in a polo game, the horse was injured and subsequently died.
  - (k) The horse was turned out unattended on pasture and died from an accident.
  - (l) *S*'s horse received a nail puncture. *S* did not pay any attention to the injury because he did not think it serious. Subsequently the horse died from blood poisoning.
  - (m) *S*'s horse became sick and two weeks later died. The company received notice after the death of the animal.
  - (n) The animal died as a result of breeding. At the time of the loss the horse was valued at \$1,500.
  - (o) *S* also purchased another policy from another insurance company for \$250.
3. (a) Outline the information required in order to file a claim for a livestock loss.
- (b) Describe several clauses of the fire insurance policy that are comparable to the livestock insurance policy.
- (c) Compare the coverages of the mortality floater and the general livestock policy.
- (d) Explain the following endorsements: (1) excluding fire and lightning, (2) herd, (3) deductible, (4) cumulative, (5) foaling, (6) exhibitors' and breeders' policies.
4. (a) Compare the coverages of the fur farm policy and the mortality floater.
- (b) Describe the method used for determining the amount of the company's liability for the loss of fur animals.
5. (a) What are the perils covered by the turkey insurance policy?
- (b) Compare the method used for determining the loss for turkey insurance and fur animal insurance.
- (c) *P* insured 2,500 turkeys and claimed a loss of 100 turkeys. Investigation disclosed that *P* had a flock of 4,000 turkeys. What is the company's liability?
- (d) Describe the exclusions of the turkey policy.
- (e) What are the deductible and franchise clauses that are available in the settlement of losses under the turkey insurance policy?

## CHAPTER 11

### COMPREHENSIVE GLASS INSURANCE

**Purpose.**—Plate glass is widely used and is liable to sudden and complete destruction. Since plate glass is expensive, plate glass insurance fills a real need in covering the owner, the lessee, and any other responsible party against the hazard of breakage, which may result from any of the following causes :

1. Persons leaning or falling on glass showcases.
2. Articles falling in window display or on glass showcases.
3. Fall of shelves, shutters, transom, or awnings.
4. Door slamming.
5. Damage while cleaning or dressing windows.
6. Defective setting of glass.
7. Settling of building.
8. Explosions.
9. Effects of weather conditions, such as floods, windstorms, the sun's rays, frost, snow, hail, or ice.
10. Throwing of missiles by children or from automobiles and other street vehicles.
11. Breakage by workmen, burglars, drunken or quarrelsome individuals, and rioters.

**Types of Glass Insured.**—In addition to the massive shop window which the term plate glass brings to mind, the following are some of the types of glass that can be insured :

1. Art or stained glass.
2. Bent glass.
3. Carrara—opalite—vitrolite—argentine.
4. Clamped glass.
5. Colonial—florentine—maze.
6. Embossed glass.
7. Prism glass.
8. Wired glass, both polished and rough.
9. Flexglass, glass bricks, glass blocks, and similar structural glass.
10. Herculite, tuf-flex, and similar tempered glass.
11. Venetian blinds-glass, Venetian windows.

Insurance may be obtained for glass used for other than window purposes, as, for example, showcases, mirrors, shelves, signs, interior partitions, dome lights, neon signs, fluorescent signs, and lamps.

**Coverage.**—The comprehensive glass policy covers loss due to

- (a) damage to the glass, if described in the declaration of the policy, and to the lettering and ornamentation, if described in the policy, by breakage of the glass, or by chemicals accidentally or maliciously applied.
- (b) repairing or replacing frames immediately encasing and contiguous to the glass, if necessary, because of damage.
- (c) installing temporary plate in, or boarding openings containing the glass which is insured, when necessary because of unavoidable delay in repairing or replacing the damaged glass.
- (d) removing or replacing any obstruction other than window displays when necessary in replacing the damaged glass, lettering, or ornamentation.

There is a limit for each of divisions *b*, *c*, and *d* of \$75 with respect to any loss due to any one occurrence at any one location which is separately occupied or which is designed for separate occupancy. This limit on the coverage for damage to frames, temporary installation, and removal of obstruction may be increased for each division by endorsement upon payment of an extra premium. Loss due to fire is excluded. In addition, loss due to war, whether or not declared, invasion, civil war, insurrection, rebellion, or revolution is also not covered.

The company can pay for the loss in money or may repair or replace the property. If the insurance company pays for the damaged glass or replaces the damaged glass, any salvage belongs to the company.

When the policy specifies a valuation for the lettering or ornamentation, the company cannot be held for more than that limit. The moral hazard is singularly missing in this field of insurance, since the company usually replaces the broken glass and the insured has nothing to gain through occurrence of the peril.

Insurance companies may make replacements themselves or contract with local glaziers in advance for whatever replacement business develops within the area during the contract period. Prompt and satisfactory replacement, often at costs lower than would be available to the individual, constitutes a service performed by companies in this field.

Some of the other forms of insurance also cover the breakage of glass. The extended coverage endorsement of the fire insurance policy

includes loss due to breakage of glass for the perils of explosion, riot, and civil commotion and vehicular damage. The dwelling all risk endorsement and the additional extended coverage endorsement also offer glass coverage. Coverage is also available in connection with the steam boiler policy. The comprehensive glass policy covers the important peril of damage to glass by malicious mischief.

**DESCRIPTION OF INSURED GLASS.**—In order to fix coverage and premium charges, every policy must contain a detailed description of each kind and size of glass insured. The policy must describe the lettering and ornamentation, if insured, on a stated valuation basis.

**CONTINUED COVERAGE.**—If a replacement of any damaged glass is made, the new plate is covered for the remainder of the policy term, without any charge for the new glass, lettering, and ornamentation of the same size and value as the old. Only when there is some difference in size of the glass replaced or in the value of the lettering or ornamentation is an adjustment premium made.

**Duties of the Insured.**—In addition to notifying the company of a loss as soon as practicable, the insured must, upon the company's request, file proof of loss, under oath if required, on forms provided by the company.

If the insured carries other insurance covering the damage, the company is not liable for a greater proportion of any damage than the amount applicable bears to the total amount of all valid and collectible insurance covering the damage.

If the company does not pay for the loss, suit can be brought in a limited period after the required proofs of loss have been filed with the company, but not unless commenced within two years from such date. As in other policies, the company must be subrogated to the extent of any payment to all of the insured's rights of recovery against any third party, and the insured must execute all papers required and do everything necessary to secure the rights.

In case of assignment, the company is not bound without its written consent. If the insured dies or is adjudged bankrupt or insolvent during the policy period, however, the policy, unless canceled, continues in favor of the legal representative of the insured, provided written notice is given to the company within 60 days after the date of the death or adjudication.

**Endorsements.**—Plate glass insurance coverage may be extended or modified by the following endorsements to meet special situations:

1. Large plates.
2. Insurance for all glass of type described.
3. Residence glass.
4. Broken or cracked plates.
5. Memorial windows, stained-glass windows, and stained-glass set.
6. Rotogravure screens, halftone screens, and lenses.
7. Neon signs.

**LARGE PLATE ENDORSEMENT.**—When a glass plate with an area of one hundred square feet or more is broken, the large plate endorsement makes it optional for the company to replace the large plate with two plates, the combined area of which equals that of the broken plate. If the company chooses, the indemnity will take the form of a cash payment covering the cost of two such plates at the time of loss.

In the event of replacement by two plates, the company must pay the cost of any necessary alterations. Furthermore, this endorsement entitles the insured to a reduction in premium rates.

**ALL GLASS OF TYPE DESCRIBED ENDORSEMENT.**—This endorsement will apply to any additions or changes in glass of the type described in the policy at the premises and glass of the same type at other premises when the insured acquires ownership or control, provided the insured notifies the company within 60 days after the change of glass or the acquisition. Similarly, this endorsement will cover lettering and ornamentation on such glass when specifically included in such type. Under this endorsement, if any glass is not to be insured, the policy declarations must contain the word “all other glass not insured hereunder.”

If there is any glass which is broken or cracked or which is not to be insured, the policy declaration must state that fact.

**RESIDENCE GLASS ENDORSEMENT.**—This endorsement is used when the glass in any residence is covered by the comprehensive glass policy. The policy then provides that the company will pay for damage for any glass which is permanently attached to the residence or any storm windows or doors by breakage of, or chemicals applied to the glass, including damage to the frames enclosing the glass and for making temporary installations and removing or replacing obstructions on account of damaged glass. There is no coverage under the policy for a conservatory, chandelier, electric light fixtures, carrara or vitrolite glass, glass bricks, shingles, or other structural glass, prefabricated multiple plate insulating units or radiant heating panels unless described specifically in the policy.

There is a limit of liability of \$50 for loss of any plate of glass or window or glass in any other object which is not specifically described in the policy. If there is a loss of an article which is part of a pair or set, the measure of the loss will be the reasonable or fair proportion

of the value of the pair or set. Due consideration will be given to the importance of the article, but the loss will not be construed to mean total loss of the pair or set. Residence glass coverage is also included in the dwelling all risk endorsement (p. 111) and the additional extended coverage endorsement (p. 112).

**CRACKED GLASS ENDORSEMENT.**—When a plate glass is already cracked but not too severely, this endorsement may be used to cover the particular plate. The break is described in the endorsement, and any extension of the existing crack is not considered a loss under the policy.

**STAINED GLASS ENDORSEMENT—ALL RISK.**—Stained glass set in leaded sections may be insured by this endorsement against all risks, except wear and tear and deterioration, and enemy attack, including any action taken by the military, naval, or air forces of the United States in resisting enemy attack. For each window so insured, the policy schedule must give a full description and the amount of insurance.

**ROTOGRAVURE SCREENS, HALFTONE SCREENS, AND LENSES ENDORSEMENT.**—These items can be covered against all risk. However, the policy does not provide coverage for loss due to the following:

- (1) Fire, marring or scratching, wear and tear, or gradual deterioration.
- (2) Chipping, if the usefulness of the insured object is unimpaired.
- (3) Infidelity of the insured's employees or any person to whom the insured object is entrusted.
- (4) Separation or coming apart of the halftone screens.
- (5) War, whether or not declared, invasion, civil war, insurrection, rebellion, or revolution.

On the payment of an additional premium, the exclusion of infidelity can be deleted from the endorsement covering rotogravure screens. The fire and infidelity exclusions can be deleted from the endorsement covering halftone screens and lenses.

**NEON SIGN ENDORSEMENT, ALL RISK.**—Neon signs can also be insured against all risk. However, there is no coverage for

- (a) wear and tear or gradual deterioration, installation, repairing, faulty manufacturing, or damage occasioned by the inherent character of the insured property.
- (b) mechanical breakdown or loss to parts caused by electricity.
- (c) dampness of the atmosphere or extremes in temperature.
- (d) war, whether or not declared, invasion, civil war, insurrection, rebellion, or revolution.

If there is a loss during the policy period, the company will deduct 5% of the specific amount of insurance carried on each object if subject

to a deductible clause. However, the amount deducted cannot be less than \$10 nor more than \$100 for each separate claim. If the loss should be total, the amount of depreciation will be deducted and the insurance will therefore terminate.

**Premium Charges.**—Premium charges depend upon the following factors :

1. Geographical location of the risk. This is an important factor in determining the insurance cost, for the price of glass varies in different cities. In some locations there may be no warehouse where glass is kept, and in case of loss a special shipment to that locality would be required. Furthermore, in territories outside cities, there is an added cost for workmanship and the salvage allowed for glass is not usually as much as in cities.
2. Location of the building in a city. In some cities the various sections of the city are zoned and an attempt is made to base the premium on the conditions in that zone.
3. Position of glass in the building. The hazard of glass breakage is greatest on the ground floor or basement of a building, which is nearest to the pedestrian, the mischief-maker, and the usual hazards of street traffic. Rates therefore depend upon the distance of the plate glass above the sidewalk.
4. Sizes. The plate glass manual contains tables giving the sizes of plate glass, which are technically known as boxcar or flatcar sizes. The rates vary with the length and width of these sizes.
5. Type of setting. The former practice of setting glass in wooden frames has given way to the use of copper frames with clamp, glue, or cemented setting. The newer method, however, increases the hazard of breakage from faulty construction.
6. Kind of glass. Whereas ordinary types of glass may be obtained readily, others, such as bent glass, may be available only on special order. The additional expense required to obtain bent glass must be considered in the rate.
7. Purpose for which the glass is used. More frequent contact is made with certain types of glass than with others. If goods are kept on glass shelves or counters, the hazard is especially great. Articles are constantly being dropped on these shelves and counters and may cause them to break.
8. Discounts. Reduced rates will be granted for all exterior glass above the second floor when all such glass is insured. Furthermore, if any glass is protected by permanent exterior shields of wire mesh or wired glass covering the whole plate, a commensurate discount is allowed for the reduced risk.
9. Increase in the \$75 coverage for frames, removal of obstructions, or temporary installation or boarding up of openings.

## QUESTIONS AND PROBLEMS

1. (a) Describe the need for plate glass insurance.  
(b) On January 15 *Z* purchased a plate glass insurance policy. Discuss the company's liability in the following cases:
  - (1) The glass valued at \$500 was broken. *Z* demanded payment of the amount.
  - (2) What if the glass had lettering which cost \$25?
  - (3) Acid fell on the plate glass and necessitated replacement.
  - (4) *Z*'s plate glass was broken. It was necessary to replace the frames and the glass.
  - (5) *Z*'s plate glass was broken. It was necessary to board up the window frame, as the new plate glass did not become available for several days.
  - (6) *Z*'s plate glass was broken. It was necessary to remove show window displays and window fixtures.
  - (7) *Z*'s plate glass was damaged as a result of fire.
  - (8) On January 20 the plate glass was broken. The insurance company replaced the plate glass. On January 30 the new plate glass was broken.
2. (a) Compare the plate glass policy and the fire insurance policy as respects other insurance, subrogation, and assignment.  
(b) *M* insured glass bricks in his building for \$1,200. Discuss the company's liability if a riot caused \$50 damage to the bricks.
3. (a) *Q* purchased a plate glass policy subject to a large plate endorsement. Subsequently, *Q*'s plate glass was broken. He insisted that the company should replace the glass. The company, however, desired to replace it with two plate glasses equal in dimension to the plate glass that was broken.  
(b) *Q* inserted another window of the type described in his policy in a wall of his premises. The glass was broken two weeks later. Explain the company's liability if *Q* had an "All Glass of the Type Described Endorsement" attached to his policy.  
(c) *Q* purchased another store four months after his policy went into effect. A week later glass at the new store was broken. Explain the company's liability.  
(d) *R*'s plate glass policy was subject to a cracked glass endorsement. One day *R* noticed that the existing crack was greatly extended. What is the company's liability?  
(e) *S* insured all the plate glass in his residence under a Residence Glass Endorsement attached to his policy. The glass in a storm door was broken. The glass cost \$60 to replace. What is the company's liability if no single item of glass was specifically valued in the policy?
4. Compare the coverage of the rotogravure screens, halftone screens, and lenses endorsement with that of the plate glass policy.

5. *T* had purchased insurance covering his neon sign worth \$250 against all risks under a comprehensive glass policy. What is the company's liability if the sign was damaged by vandals, causing damage amounting to \$50?
6. What factors determine the premium charge for a comprehensive glass insurance policy?

## CHAPTER 12

### BURGLARY, THEFT, LARCENY, AND ROBBERY INSURANCE

**Definitions.**—The related terms of burglary, larceny, and robbery are variously defined by the different state statutes. Underwriters have secured uniformity in meaning for insurance purposes by specifically defining these offenses in policies issued.

Burglary loss as defined in burglary policies is that occasioned by attempting or making felonious entry into the insured's premise. Visible evidence of actual force or violence by means such as use of tools or explosives must appear at the point of entry. Losses caused by sneak thieves, servants, and others who have access to the insured premises are not deemed to constitute burglary losses.

Theft and larceny are synonymous in insurance terminology signifying the unlawful or felonious taking of property owned by others.

As defined in the messenger robbery policy, robbery is a felonious and forcible taking of property under any of the following circumstances :

1. Inflicting violence upon a person charged with the actual care and custody of the property.
2. Placing the messenger in fear of violence.
3. Committing any other felonious acts in the presence and with the knowledge of these persons, excluding acts by officers or employees of the insured.
4. Killing the messenger or rendering him unconscious by injuries inflicted maliciously or accidentally.

**Policy Forms.**—The following are some of the forms issued :

1. The residence theft and away from premises theft policy essentially covers loss of personal and household property by burglary, robbery, theft, and larceny from within the premises occupied by the insured and away from the premises. There is also available a modified residence theft and away from premises policy with limited coverage and lower limits of liability. This form is known as the Householder's Limited Theft Insurance policy.
2. The mercantile open-stock burglary policy covers loss of merchandise by burglary from the insured's premises.
3. The mercantile safe burglary policy essentially covers loss by burglary through the forcible entry into safes or vaults by burglars.

4. The bank burglary and robbery policy essentially covers loss by burglary or robbery of money and securities from banks.
5. Mercantile robbery policies are represented by the paymaster, messenger, interior robbery forms. The paymaster policy protects the insured from robbery loss of payroll while the funds are carried by the custodian outside the insured's premises or, while within his care, inside the premises. The messenger robbery policy covers loss of moneys, securities, and merchandise due to robbery outside the premises. The interior robbery policy covers against the holdup hazard within the premises during business hours.
6. The storekeepers' burglary and robbery policy provides specific coverage against the following hazards for stores: (a) robbery within the premises; (b) robbery outside the premises; (c) kidnapping; (d) safe burglary; and (e) burglary within the premises.
7. The office burglary and robbery policy provides various coverages for offices somewhat similar to that provided for stores by the storekeepers' burglary and robbery policy.
8. All-risk policies.

**Residence Theft and Away from Premises Theft Insurance.**—The residence theft coverage is available in three standard forms: (1) divided coverage form; (2) 50% blanket form; (3) 100% blanket form. The perils covered by theft include loss by burglary, robbery, theft, or larceny. An article may disappear mysteriously. Mysterious disappearance of any insured property except a precious or semiprecious stone from its setting in any piece of jewelry is presumed to be due to theft.

**LOCATION OF PROPERTY COVERED.**—The residence coverage protects against losses occurring in the insured's premises. The term "premises" includes grounds, garages, stables, and other outbuildings incidental to the premises but excludes any part of the premises used as a boarding or lodging house or for any business purposes, unless such use is approved by the company. The policy also covers property stolen from within any bank, trust, or safe deposit company, public warehouse, or occupied dwelling not owned or occupied by or rented to the insured.

**WHOSE PROPERTY IS COVERED.**—From the standpoint of ownership, the residence theft coverage protects: (1) the insured; (2) any permanent member of his household who pays no rent or board; (3) any relative permanently residing with the insured; (4) the insured's guests and residence employees. The term "residence employee" means an employee whose duties are incidental to the ownership, maintenance, or use of the insured's premises, including the maintenance or use of automobiles or teams, or who performs duties of a similar nature but not in connection with the insured's business.

With respect to loss occurring at any part of the premises not occupied exclusively by the insured's household, the coverage is limited to

property owned or used by: (1) the insured; (2) a permanent member of his household; (3) a residence employee of the household.

**DIVIDED COVERAGE FORM.**—Experience indicates that the possibility of loss of valuable articles such as jewelry, silverware, and furs is greater than that in connection with other household goods and personal property. This fact is taken into consideration in the divided coverage form. Under this form the property of the insured is divided into three groups. The insured must specify the amount of insurance he desires on each group. The three main property classifications are as follows:

*Section (a).* Jewelry, sterling silver, and furs, which mean jewelry, watches, necklaces, bracelets, gems, precious and semiprecious stones, articles of gold, platinum, and sterling silver, furs, and any article containing fur which represents the principal value, not included in *Section (c)*.

*Section (b).* All other property not included in *Section (c)*.

*Section (c).* Specific insurance. If the insured desires, he may obtain specific insurance on any article at lower rates, provided that a description of the article and its value are stated in the policy.

A reduction in premium is allowed if the insured agrees to carry insurance amounting to 80% of the value of such articles as jewelry, sterling silver and furs, which are described under *Section (a)* of the divided coverage form. An 80% coinsurance clause is attached to the policy when the discount is allowed the insured.

**50% BLANKET FORM.**—This policy form is similar to the divided coverage form except in two respects. First, the insured is not required to state specifically how much insurance he desires under *Section (a)* and *Section (b)*. Secondly, the amount that may be recovered for losses on articles described by *Section (a)* above is limited to 50% of the total amount of insurance carried under the policy. To illustrate the effect of this limitation, assume that a policy for \$3,000 is purchased by a man who owns \$3,000 worth of jewelry, sterling silver, and furs, and also \$4,000 worth of household effects. In the event that jewelry valued at \$2,000 is stolen from the insured, the maximum amount that he can recover on his jewelry, sterling silverware, and furs, would be \$1,500. If, however, \$3,000 worth of household effects were stolen, the entire amount would be paid by the insurance company.

**100% BLANKET FORM.**—This form provides full coverage to the extent of the insurance carried, in the event of the loss of all the personal property in the possession of the insured. Since there is no special limitation on jewelry, sterling silverware, and similar articles, the rate

charged for this form of coverage is higher than the rates for the other forms.

**DAMAGE TO PROPERTY.**—During the course of a theft or attempted theft, the premises occupied by the insured or the insured property may be damaged. Under such circumstances the company agrees to pay for damages to the premises and to the insured's property at the premises or a depository. Furthermore, the company will pay for damage to the interior of the part of any building occupied by the insured at the premises, and to the insured's property caused by vandalism or malicious mischief. However, there is no liability for damage to the building unless the insured is the owner of the building or is liable for the damage.

**LETTING AND SUBLETTING.**—During the policy period the insured may sublet his premises. Residence coverage applies when the premises are rented or sublet to a tenant for a private residence only and therefore must not be used as a boarding or lodging house or for any business or professional purposes. No coverage is provided in the rented premises, however, for money, securities, watches, necklaces, bracelets, gems, precious and semiprecious stones, stamps, and jewelry. Articles made wholly or partly of gold or platinum are similarly excluded. Furthermore the company is not liable for losses on property owned or losses caused by the tenant, his employees, or members of his household.

Knowledge of the tenant and members of his household is considered knowledge of the insured. Hence the company is not liable for losses of which tenants possess knowledge unless immediate notice is given to the company.

**NEW RESIDENCE.**—There is a possibility that during the course of the policy term the insured may move to other premises. Therefore if the insured should move to other premises which he intends to occupy permanently as his private residence the insurance applies during the moving, (a) at the premises, (b) at the other premises, and (c) while in transit.

Upon completion of the moving the insurance applies at the other premises and no longer applies at the original premises. Any necessary adjustment of premium will be made if there is any change in the rate between the former residence and the new residence.

The insurance applies only with respect to property owned by (a) the insured, (b) a permanent member of his household, or (c) a residence employee of the insured. Notice must be given to the company within 30 days after the moving has been completed.

**THEFT AWAY FROM THE PREMISES.**—This coverage applies only to property that is insured under the residence theft portion of the policy.

The limit of the company's liability cannot exceed the company's liability for the residence theft portion on the same classes of property. Under this coverage the company agrees to pay for loss or damage by burglary, robbery, theft, or larceny, or attempt at such crimes, and vandalism or malicious mischief occurring away from the premises. The property covered must be personal property owned or used (1) by the insured, (2) by a permanent member of his household, or (3) owned by a residence employee of the household.

**EXCLUSION.**—The coverage for theft away from premises does not apply to property (a) pertaining to the insured's business or profession, (b) while at any dwelling owned or occupied by or rented to the insured except while the insured person is temporarily residing there. If the residence is a permanent one, the property must be covered by a residence theft policy. (c) Loss of property of residence employees unless at the time of loss they are engaged in the employment of the insured or a permanent member of his household and the property is in their custody, or the property is at a temporary residence of the insured or a permanent member of his household. (d) While unattended in or on any automobile, motorcycle, or trailer, other than a public conveyance, unless coverage for "property unattended in automobile" is stated in the policy declarations. (e) While in the charge of any laundry, cleaner, dyer, tailor, or presser, except by robbery or by theft through breaking and entering at their premises, or while in the mail or in the charge of any carrier for hire. (f) Covered in whole or in part under the Residence Theft agreement or under the Removal to New Residence agreement.

**TERRITORIAL COVERAGE.**—The policy covers loss within the United States of America, its territories or possessions, and Canada, and for theft outside the premises elsewhere within the Western Hemisphere.

While the policy covers property such as jewelry and any other property for the replacement value, limitation is placed upon money, securities, and boats. The coverage limitation on money is \$100, for securities and United States War Savings Stamps \$500, and for loss of boats \$500.

**EXCLUSIONS.**—Under the residence theft and theft away from premises coverage there is no liability for any of the following:

1. Loss by theft or attempt thereat, vandalism, or malicious mischief committed by a relative of the insured permanently residing with the insured.
2. Loss of (a) any aircraft, automobile, trailer, motorcycle, or the

equipment of such conveyances, (b) articles carried or held as samples or for sale or for delivery after sale, (c) animals or birds.

3. Damage by fire.
4. Property owned by a person not related to the insured who pays board or rent to the insured.
5. Loss due to war, whether declared or not, invasion, civil war, insurrection, rebellion, or revolution.

Although aircraft and automobiles are excluded because coverage is available against loss under the automobile and aircraft damage policies, the residence theft policy may provide coverage for vehicles while they are contained within a private garage, stable, or outbuilding on the premises for an additional premium. Articles held for sale should be covered by mercantile burglary or theft or robbery policies.

Upon receipt by the company of notice of loss for which the company is liable, the applicable limit of liability will be reduced to the extent of the company's liability for the loss, except with respect to any loss occurring subsequent to the receipt of the notice by the company.

Upon knowledge of loss, the insured must do the following :

1. Give notice of the loss as soon as practicable to the company or any of its authorized agents and also to the police.
2. File proof of loss with the company within 60 days after the discovery of loss, unless the time is extended in writing by the company.
3. Upon the company's request, the insured and every claimant must submit to examination by the company, subscribe to the examination under oath, if required, produce for the company's examination all pertinent records at such reasonable times and places as the company designates, and must cooperate with the company in all matters pertaining to the loss or claims with respect to the loss.

As in other forms of insurance, the policy must not inure directly or indirectly to the benefit of any carrier or bailee.

**OTHER INSURANCE.**—If the insured has any other coverage, the insurance afforded by the policy is excess insurance over any other valid and collectible insurance applicable to any loss covered. However, the insurance will not apply :

1. To articles which are separately described and enumerated and specifically insured in whole or in part by any other insurance.
2. To property otherwise insured unless the property is owned by the insured or by a permanent member of his household.

The company is liable for the actual cash value of the property at time of the loss, with allowance for depreciation, limited to the cost of repair

or to replace the property with other property of like kind and quality. If there is loss of an article which is part of a pair or set, the measure of loss will be a reasonable and fair proportion of the total value of the pair or set, giving consideration to the importance of the article, but the loss will not be construed to mean total loss of the pair or set.

The company may pay for the loss in money, or may repair or replace the property, and may settle any claim for loss of property either with the insured or the owner of the property. Any property so paid for or replaced becomes the property of the company.

The insured or the company, upon recovery of any of the property, must give notice as soon as practicable to the other. The insured will be entitled to the property upon reimbursing the company for the amount paid or the cost of replacement.

No action can be taken against the company unless there has been full compliance with all the terms of the policy, nor until a limited period after the required proofs of loss have been filed with the company.

In the event of any payment under the policy, the company must be subrogated to all the insured's rights of recovery against any person or organization. The insured must execute and deliver instruments and papers and do whatever else is necessary to secure the rights.

Assignment of interest under the policy does not bind the company until its consent is endorsed on the policy. If the insured should die during the policy period, death of the insured will terminate the policy unless within 60 days after death, written notice is given to the company designating an insured. In that event the person designated becomes the new insured from the date of death. If the person designated is not a person who was a permanent member of the insured's household at the time of the death, the policy will apply as it applied prior to death, but will not apply to loss of property owned or used by the new person, a member of his household, or a residence employee of his household, unless the loss occurs at a part of the premises occupied exclusively by the original insured's household.

**PREMIUM CHARGE FOR RESIDENCE THEFT AND THEFT AWAY FROM PREMISES.**—Premiums for residence theft insurance depend upon the following essential factors :

1. The insurance companies have recognized that losses vary throughout the country. For accurate measurement of the hazard, the United States has been divided into territories based upon loss statistics.
2. A reduction in rate is granted if the insured agrees to limit the company's liability to loss at the insured's permanent residence by burglary and to exclude losses resulting from larceny, theft, and robbery.

3. Rates are based on \$1,000 of insurance for each permanent residence. The rates for additional thousands of dollars of insurance are decreased as the amount of the policy is increased to \$4,000, after which a flat rate per thousand is charged for all additional thousands.
4. Lower rates are charged for private residences and two-family houses than for apartments, flats, hotel rooms, and penthouses.

The part of a building with a separate street entrance for the use of not more than two families will be insured at the private and two-family house rates. Two or more floors in the same building, or communicating floors in adjoining buildings, occupied by one family or household are considered a single residence.

An increased hazard is present when a private house or residence in a two-family house is used for boarders and lodgers. Consequently if more than two boarders or lodgers other than relatives of the insured live on the premises, the apartment house rate is charged. If the policy, however, is limited to loss due to burglary only, the rate charged is the burglary rate for the type of building occupied by the insured.

5. A discount is granted on residence insurance policies for either a central station or a local burglar alarm system installed and maintained on the premises. The alarm system must protect all accessible openings in the premises. In the case of a local alarm system, the gong must be located on the outside of the premises. A discount is also granted for one or more private watchmen with no other duties, who are on duty at the premises twenty-four hours daily.
6. If part of the premises is used for business or professional purposes, a higher rate is charged for burglary, robbery, larceny, and theft insurance, due to the consequent increase in hazard. In the case of dentists, coverage on precious metals is excluded unless specifically provided for by payment of an additional premium. Since the residence policy does not cover stock in trade, coverage of stock in trade must be provided in a mercantile open-stock policy and at mercantile open-stock rates.

Premiums for theft away from premises depend upon territory and amount of insurance and whether or not coverage is provided for property left in unattended automobiles.

#### ADDITIONAL COVERAGES AND VARIATIONS.—

1. By payment of additional premiums, additional insurance may be provided for the following property beyond the limits specified in the standard policy: (a) money in excess of \$100; (b) securities and United States Savings Stamps in excess of \$500.
2. Three-year policy. If the policy is written for a period of three years, the premium charged is two and one-half times the annual premium if paid at the inception of the policy.

3. Theft away from premises insurance can be written to cover surgical, medical, or dental instruments, apparatus, medicines, drugs, or books, including the bag, kit, or instrument case in which the property is contained.
4. If the policy is written subject to a deductible of \$15 for each loss, a discount will be allowed on the "1st \$1,000" rates for sections (a) and (b) of the divided coverage, 50% blanket, and 100% blanket, and theft away from premises coverages.

**Householder's Limited Theft Policy.**—The householder's limited theft policy is designed to meet the needs of a householder who requires only limited residence theft coverage, and limited coverage for theft away from his residence. The policy provides the following limits of liability:

1. Theft from the premises—\$1,000.
2. Theft away from the insured premises—\$250.
3. Sub-limits for securities, U.S. Savings Stamps, jewelry, silverware and furs—\$250.
4. Sub-limit for money—\$50.

The policy may be endorsed to increase the coverage against theft from the premises in additional \$500 units. However, such additional coverage will not increase the limit of liability for theft away from the premises or any of the sub-limits. If greater coverage is desired for theft away from the premises, or if higher sub-limits are desired, additional policies of \$1,000 each may be purchased without limit.

The householder's limited theft policy differs from the regular residence theft policy as follows:

1. Theft is defined as the act of stealing. Mysterious disappearance is therefore not covered.
2. There is no provision for specific insurance.
3. The property of residence employees is covered only against theft from premises occupied exclusively by the insured's household.
4. There is no coverage for property in a bank, trust or safe deposit company, warehouses, or in occupied dwellings of another person where the property of the insured may be placed.
5. The policy excludes coverage for property in transit to a new residence. There is no 30-day automatic coverage at a new location.
6. The theft away from premises does not cover in dormitories, fraternity or sorority houses.
7. Coverage for losses from unattended automobiles is limited to losses caused by forcible entry into a locked automobile or automobile trunk.

Coverage similar to that granted by the householder's limited theft policy is also available as an endorsement to certain other forms of insurance policies carried by householders, e.g., household fire insurance policy. If coverage is provided by an endorsement to another policy, the amount of insurance is limited as follows :

1. Theft from the premises—\$500.
2. Theft away from the insured premises—\$125.
3. Sub-limits for securities, U.S. Savings Stamps, jewelry, silverware and furs—\$250 for theft from the premises and \$125 for theft away from the insured premises.
4. Sub-limit for money—\$50.

Additional coverage may be purchased under the endorsement to increase the limits of liability under the theft from premises coverage for additional units of \$500, and the theft away from premises to a maximum of \$250. The sub-limits may not be increased.

The householder's limited theft policy or endorsement may be written only for persons living in private or two-family houses, apartments or flats excluding premises in hotels and premises used in whole or in part for professional or business occupancy or premises where more than two boarders or lodgers, other than relatives of the insured, live with the insured.

**Mercantile Open-Stock Burglary Insurance.**—The open-stock policy covers a merchant against loss or damage (except by fire) caused by burglary to merchandise, furniture, fixtures, and equipment in his premises, and also to the premises if owned by the insured or if he is liable for the damage to the premises. "Burglary," as here defined, means the taking of property from the insured's premises after breaking into the premises when not open for business. There must be visible marks upon the exterior of the premises of the force and violence made at the place of entry by tools, explosives, electricity, or chemicals.

**MERCHANDISE AND PREMISES COVERED.**—The policy covers all merchandise in the designated premises : (1) owned by the insured ; (2) held by him as bailee or in trust or on commission ; (3) sold but not removed from the premises ; (4) for which the owner is liable as the result of such loss or damage.

"Premises," as here defined, means the interior of the building designated by the policy and occupied solely by the insured in the conduct of his business. "Premises" may be amended to include the interior of the

insured's buildings on a continuous or contiguous plot of ground, and the grounds if entirely enclosed by a fence.

Showcases and show windows which do not open directly into the interior of the premises are not included in this coverage. Public entrances, halls, and stairways are similarly excluded.

EXCLUSIONS.—The mercantile open-stock burglary policy provides no coverage or limits liability for loss under the following circumstances :

1. When the burglary is effected or attempted by the insured, an associate in interest, or a servant or employee either as principal or accessory. The words "servant or employee" may be eliminated for an additional premium.
2. When the insured fails to keep books of accounts in such manner as to permit accurate determination of losses.
3. When contributed to by fire, or occurring during a fire in the building in which the premises are located.
4. When caused or contributed to by reason of any change in the conditions of the risk.
5. Loss of furs and articles in which fur represents the principal value, feloniously abstracted from within any show window by breaking the glass, from outside the premises even though the glass may be broken by an accomplice of the criminal.
6. Any one necklace or article of jewelry, or any one article containing one or more gems, or any one watch or precious or semiprecious stone in excess of \$50.
7. While the protection or service promised by the insured is not maintained.
8. Damage to plate glass and its lettering or ornamentation.

COINSURANCE CLAUSE.—The policy contains a provision subjecting the risk to coinsurance which varies in percentages according to the territory in which the risk is located. For all classifications, coinsurance limits in fixed amounts are set. Here is an illustration of this principle: A manufacturer of boots and shoes in a certain county carries \$6,000 insurance. He has stock worth \$10,000 or more, and a \$2,000 loss occurs. The policy provides that a manufacturer of boots and shoes in that territory is subject to the 80% clause, unless at least \$3,000 insurance is carried. Since the manufacturer carries \$6,000, he is paid in full. As another example, take the case of a concern selling silk goods which has stock valued at \$60,000 and is carrying \$5,000 of insurance when a \$4,000 loss occurs. In this industry the 80% clause also operates. Exactly 80% of \$60,000 would be \$48,000; but the rules provide that a \$10,000 limit avoids the 80% coinsurance clause. This manufacturer, however, carries \$5,000 insurance instead of \$10,000. For his \$4,000 loss, therefore, he is paid one half, or \$2,000. If his stock

of silk were worth, instead, \$8,000, he would be required to carry 80% of \$8,000—that is, \$6,400 to avoid coinsurance. If he carried \$4,000 and a loss occurred, he would be paid a percentage corresponding to the proportion of \$4,000 to \$6,400.

Table 21 gives further illustrations of policies issued to dealers in silk goods if the 80% coinsurance limit is \$10,000.

TABLE 21. POLICIES ISSUED TO DEALERS IN SILK GOODS

Value of Inventory	80% Coinsurance	Limit Required to Avoid Coinsurance	Insurance Carried	Loss	Loss Paid	Loss Suffered by Insured
\$60,000	\$48,000	\$10,000	\$45,000	\$5,000	\$5,000	—
55,000	44,000	10,000	10,000	7,500	7,500	—
15,000	12,000	10,000	7,500	6,000	4,500	\$1,500
9,500	7,600	—	8,000	6,000	6,000	—
5,000	4,000	—	3,000	1,000	750	250

**INSPECTION.**—The insurance company aims to prevent losses. Therefore the policy provides that the company be permitted, at any reasonable time, to inspect the premises, and it may require the insured to make the premises reasonably secure.

**ASSIGNMENT.**—In view of the fact that there may be a change in title during the policy period, no assignment of interest under the policy will bind the company unless its consent is endorsed on the policy. If the death, insolvency, or bankruptcy of the insured occurs during the policy period, the insurance under the policy during the unexpired portion of the period will continue in favor of the legal representatives of the insured, provided that written notice is given the company within 30 days after the date of death, insolvency, or bankruptcy of the original insured.

**NOTICE AND PROOF OF LOSS.**—The insured, upon the knowledge of any loss, must give notice as soon as practicable (1) by telegraph to the company at the company's expense, or to a duly authorized agent of the company, and (2) immediate notice to the police or other peace authorities having jurisdiction. Affirmative proof of loss or damage under oath on forms which have been provided by the company must be furnished to the company at its home office within 60 days from the date of discovery of loss or damage. The proof of loss or damage must contain a complete inventory of all merchandise stolen or damaged,

stating (1) the original cost; (2) the actual cash value at the time of the loss and the amount of loss; (3) the damage done to the merchandise; (4) the interest of the insured in the merchandise for which indemnity is claimed; (5) reasonable evidence of (a) the commission of a burglary to which the loss or damage was due and (b) the time of its occurrence; (6) describing other similar insurance, if any, on the merchandise insured; (7) the purposes for which, and the persons by whom, the premises were occupied at the time of the loss.

In addition, the insured, upon request of the company, must (a) furnish a complete inventory of all merchandise not stolen or damaged, stating the original cost and the actual cash value and quantity thereof; (b) render every assistance in his power to facilitate the investigation and adjustment of any claim, exhibiting for that purpose (1) any and all books, papers, and vouchers bearing in any way upon the claim made; (2) submitting himself and his associates in interest and also, so far as he is able, his employees and members of his household to examination and interrogation by any representative of the company under oath if required.

In the event of loss or damage for which claim is made, the insured must, at the request and expense of the company, take legal action to secure the arrest and prosecution of the offenders and the recovery of the property.

In the event of a claim made for loss of or damage to merchandise held by the insured as bailee or in trust or on commission, or sold but not removed from the premises, or for which the insured is liable to the owner for the loss or damage, the company can adjust the claim either with the insured or with the owners of the merchandise. Payment of the claim to the owner constitutes a full satisfaction of any claim made by the insured for the loss or damage. If legal proceedings are taken against the insured to recover for the loss or damage, the insured must immediately notify the company in writing, and the company is entitled to conduct and control the defense in the name and on behalf of the insured.

All sums which from time to time during the policy period may be paid or expended by way of indemnity to the insured will reduce the original amount of insurance.

**OTHER INSURANCE.**—If the insured or any other interested party carries other insurance covering the loss or damage as covered by the policy, the company will not be liable for a greater proportion of any loss or damage than the amount applicable thereto as insurance bears to the total amount of all valid and collectible insurance covering the loss or damage.

As in the fire insurance policy, the company is liable for only the actual cash value of the stolen or damaged property at the time of the loss or damage, and not for more than the actual cost of repairing or replacing the property. If the insured holds merchandise as a pledge or as collateral for an advance or a loan, liability is limited to the value of the merchandise as determined by the insured at the time of making the loan and duly recorded in his books at that time. In the absence of any such record, the company's liability will be limited to the actual amount of the loan plus the interest actually accrued at legal rates. The company may repair any damage or replace any stolen or damaged property with property of like quality and value or pay for the same in money, as the company may elect.

After investigation the company may deny liability or refuse to pay the amount demanded by the insured. No suit can be brought until forty days after proof of loss as required has been furnished, nor at all unless commenced within two years from the date upon which the loss or damage occurred.

The company must be subrogated in case of payment of any claim under the policy to the extent of payment to all of the insured's right of recovery.

**DECLARATIONS.**—Before the mercantile open-stock burglary policy is issued, the insured is required to make declarations concerning the following: (a) business address, location, and property in the premises occupied solely by the insured; (b) other business conducted in the premises; (c) any other burglary, robbery, or theft insurance; (d) loss or damage previously sustained or indemnity received for loss or damage by burglary, robbery, or theft within the last five years; (e) any burglary, robbery, or theft insurance applied for or carried by the insured which has been declined or canceled within the last five years; (f) type of alarm systems and use of private watchmen.

**Mercantile Open-Stock Theft.**—As stated, liability of the company under the mercantile open-stock burglary is limited to loss due to burglary. Consequently, if a loss occurred and if only theft was proved, there would be no liability. Coverage for theft can be obtained, however, by the attachment of the "mercantile open-stock theft endorsement." Under this endorsement the company agrees to indemnify the insured for all loss of merchandise, furniture, fixtures and equipment, from within the premises, by burglary, robbery, theft, or larceny, committed by any person or persons subject to the exclusions of the policy. The insured must at least once in every 12 months make a physical inventory of the merchandise insured. If the insured fails to make the inventory within the 12 months immediately preceding the date of the discovery

of any loss occasioned by robbery, theft, or larceny, the company will not be liable. It is not the intention of the company to pay for any loss unless the insured can prove a theft. Therefore the policy provides that mere disappearance of the property insured is not a loss covered by the policy. Any shortage disclosed by any inventory is not covered unless the shortage can reasonably be shown to have been occasioned by robbery, theft, or larceny. In that event, an amount will be deducted from the amount of the loss equal to the average shortage revealed in the last five annual physical inventories increased or decreased by the percentage of increase or decrease, if any, in the total gross sales for the 12-month period immediately preceding the date of the claim over or under (as the case may be) the average annual gross sales for the five-year period.

**PREMIUM CHARGES.**—The rates for mercantile open-stock burglary insurance depend upon the following factors:

1. Trade groups are used based upon hazard of stock. Illustrations of various business concerns in the trade groups are as follows:  
Trade Group 1: (a) Agricultural implements; (b) cosmetics.  
Trade Group 2: (a) Bakers' supplies; (b) bronze and brass goods.  
Trade Group 3: (a) Cutlery; (b) draperies; (c) curtains and tapestries.  
Trade Group 4: (a) Confectionery (tobacco products carried); (b) druggists (wholesale, including druggists' supply houses).  
Trade Group 5: (a) Liquors and wines (retail); (b) shirts (silk).  
Trade Group 6: (a) Fountain pens and gold pens; (b) furs and pelts (including any article containing fur which represents the principal value).

The governing factor in determining the classification is the "kind of business" conducted by the insured. For example, if the insured operates a shoe store and also carries an incidental line of hosiery, the risk is assigned to the classification used for shoe stores. An exception to this rule is applied to concerns which are engaged in the selling of textiles that sell various types of textiles such as silk, linen, and cotton goods. Ordinarily the rate is based upon the kind of business conducted by the insured since the possibility for loss varies with the type of textile. The insurance for textile concerns can be written with a specified amount of insurance for various types of textiles. For example, different rates are charged for the following:

- (a) Silk, silk satin, plush, wool, velour, velveteen, and velvet piece goods.
- (b) Linen, rayon, celanese, acetate, and similar synthetic cloth piece goods.
- (c) Cotton and felt piece goods.

Consequently, insurance for concerns selling these types of textiles will be written for a stipulated amount under each of the above sections. The premium for each section will be computed at the rates for merchandise insured under the appropriate section and charged in consecutive order at the initial thousands rates for the highest rate of merchandise and the additional thousands rates for the next lower rate of merchandise.

2. Territory in which the risk is located.
3. The amount of insurance. Since a burglary frequently produces a partial loss, the hazard does not increase with increased amount carried. A reduction is made in premium charged per \$1,000, as the amount of insurance increases over \$5,000 and up to \$20,000, based upon units of \$5,000 insurance.
4. Reductions are allowed for protective devices: (a) burglar alarm systems approved by Underwriters' Laboratories; (b) iron protection, in addition to alarm system, approved by National Bureau of Casualty and Surety Underwriters; (c) private watchman inside premises when not open for business.
5. Fur coverage. Upon payment of an additional premium by endorsement of the policy, furs and articles made principally of fur in show windows will be covered against the risk of abstraction by breakage of glass from outside the premises. The insurance is not subject to the coinsurance clause, nor is the amount of insurance provided by the endorsement counted in any coinsurance computations. A reduction in premium is granted for metal screens, gratings, or frames which fully protect the lower part of the show windows and extend at least six feet above the sidewalk.
6. Jewelry limit. Upon payment of an additional premium, the basic limit of \$50 on any one necklace, or on any one article of gems, or on any one article of precious or semiprecious stones can be increased.
7. A separate premium must be computed for each location. Two or more floors in the same building, or communicating floors in adjoining buildings, are considered to be a single location. If insurance is written on 50 or more locations of a risk, the manual premium will be modified by past experience of the insured. Experience rating also applies to ten or more locations provided the risk develops an annual manual premium, before the application of the experience modification of at least \$2,000. Experience rating will be discussed in the chapter on workmen's compensation. When two or more separate locations of a risk are insured, the policy may be written on a "Blanket" basis covering all locations for a single amount of insurance. The premium is computed separately for each location in accordance with the amount of exposure at each location at the time the policy becomes effective. After that date the amount of insurance applicable to each location is an amount equal to that on the location requiring the largest amount of insurance on the effective date of the policy.

8. Showcases. Specific coverage with no specified limit on single articles may be provided for outside showcases not opening directly into the interior of the premises against forcible entry into the showcases. Marks of the forced entry must be visible for recovery from the company. The rate charged corresponds to the classification of merchandise in the showcases rather than to merchandise in the premises. This insurance is not subject to the coinsurance clause and applies 24 hours daily. Furthermore, a reduced premium is allowed under the following circumstances: (a) when metal screens, gratings, or frames completely protect the entire front, side, and end lights of the showcase; (b) when the outside showcase insurance is limited to apply only when the premises are open for business.
9. A person may secrete himself on the premises during business hours. After the premises are closed, the person may make a forcible exit, taking valuable property with him. This occurrence is not within the policy definition of burglary. By endorsement, coverage may be afforded for an additional premium.
10. A watchman, janitor, or porter on duty after business hours may be forced to provide entry into the premises. This is not deemed forcible entry as defined in the policy. For an additional premium, this coverage may be provided by endorsement.
11. A garment manufacturer may suffer a loss on his premises to a part of a garment, thereby depreciating the value of the remaining part or parts. A consequential loss of this type may be covered by endorsement at no additional premium. However, an additional premium is required to cover the consequential loss resulting when the remaining part or parts of the garment are located at one or more locations.
12. Three-year policy. Similar to the residence theft and theft away from premises policy.
13. Reinstatement after loss. The amount of insurance is reduced by any loss payment to the insured. To reinstate the policy to the original face amount, it is necessary to pay an additional premium. This additional premium may be waived by purchasing a "Waiver of Restoration Premium Endorsement" at the inception of the policy.
14. A manufacturer, processor, or converter may insure his loss of profits caused by burglary of raw goods, goods in process, and finished merchandise on payment of an extra premium.

**Mercantile Safe Burglary Policy.**—When the business premises are closed, money and securities as well as valuable merchandise such as silks, are frequently placed in a safe or vault. The mercantile safe burglary policy indemnifies the insured for loss of property, that is money, securities, and merchandise, by burglary from a safe or vault when locked by all combination and time locks therein. The policy requires that entry into the safe or vault must be by the use of force and

violence, of which there must be actual marks made by tools, explosives, electricity, gas, or chemicals. The burglars may remove the safe from the insured's premises. Therefore coverage applies on the premises and elsewhere after removal of the safe or vault by burglars. Coverage may also apply in a night depository safe located in a bank or trust company in addition to the insured's premises. This is not additional insurance. The amount of insurance on the premises is reduced by the amount of money so deposited.

The term "money" applies to currency, coin, bank notes, and bullion. The term "securities" applies to all negotiable and nonnegotiable instruments or contracts representing either money or other property, including revenue and other stamps in current use but excluding manuscripts, records, accounts, or money. The term "merchandise" applies to articles that are commonly carried in the business of the insured. Premises is limited to the interior of that portion of the building which is occupied solely by the insured in the conduct of his business.

**PROPERTY INSURED.**—In addition to the insured property, the policy covers damage, except by fire, to the following property of which the insured is owner or for which he is liable as the result of actual or attempted burglary: (1) safe or vault; (2) furniture, fixtures, and other property in the premises; (3) building containing the premises occupied by the insured if the insured owns the building or is responsible for such damage.

**EXCLUSIONS.**—The company is not liable for loss under the following circumstances:

1. Unless books of accounts are maintained in a manner that permits accurate determination of loss.
2. Loss of securities unless the insured exercises every reasonable precaution to prevent their payment, negotiation, or retirement.
3. Loss of property owned by the United States Government or held by the insured as postmaster.
4. Loss effected by opening any safe or vault insured by the use of any key or by the manipulation of any lock.
5. When protection or service promised by the insured is not maintained.
6. Damage to plate glass and its lettering and ornamentation.
7. If the insured has committed fraud or concealed or misrepresented a material fact regarding the insurance.

Coinsurance is not considered necessary in mercantile safe burglary insurance as the loss is frequently total whenever a burglary occurs.

The mercantile safe burglary policy contains the following provisions which are similar to the provisions of the mercantile open-stock burglary policy: Ownership, assignment, other insurance, inspection, notice of

loss, proof of loss, adjustment of loss, payment of loss, insured's right of recovery, subrogation rights, replacement and recovery of stolen property.

In respect to hospitals, hotels, and similar risks, the requirement that records be kept may be deleted from the policy. However, a limit of 10% of the amount of insurance is placed on the property belonging to any one person.

**DECLARATIONS.**—In connection with the issuance of the policy, the following important information must be given by the insured.

1. Location of building containing the premises.
2. The business of the insured.
3. Description of the safe or vault.
4. Type of alarm system and use of private watchmen.
5. Like the mercantile open-stock burglary policy, loss, if any, sustained, and declination or cancellation, if any, by other insurance companies within the last five years.

**PREMIUM CHARGES.**—The rates for mercantile safe burglary insurance depend upon the following factors :

1. The construction of the safe or vault. Safes and vaults are classified according to their construction for protection against burglary.
2. Territorial division. The entire country is divided into territories.
3. The property insured. Lower rates are charged if the coverage is limited to: "securities only," "merchandise only," or "securities and merchandise only."
4. Business classification. All classes of business are divided into groups.
5. A separate charge is made for each location. If the policy covers two or more locations, the premium for each location is subject to a discount, except the location which requires the largest premium. If the premium as computed for a location is the minimum premium, the minimum premium will not be subject to discount. Two or more floors in the same building, or communicating floors in adjoining buildings, will be considered a single location. The definition of premises may be amended to include the interior of all the insured's buildings on a continuous or contiguous plot of ground.
6. Discounts. Lower premiums are allowed for reduced hazards under the following circumstances: (a) private watchman service, (b) approved alarm system, (c) approved relocking devices on vaults and safes, (d) tear gas system, (e) if, when the policy covers several safes, chests, or vaults, the liability is limited to a specified percentage on any one safe, chest, or vault.
7. Experience rating similar to mercantile open-stock burglary insurance.
8. Blanket Insurance, Loss of Profits, Reinstatement after loss and Three-year Policy as in the Mercantile Open Stock Burglary Policy.

**MINIMUM PREMIUMS.**—As stated above, a separate charge subject to an annual minimum premium is made for each location. However, if the sum of the annual minimum premiums amounts to \$750 or more, the minimum premiums can be reduced 50% provided that the portion of the policy premium after the application of the 50% discount cannot be less than \$750 per annum, subject to modification by experience rating for eligible risks. In addition, the premium for each location cannot be less than the pro rata premium for the amount of insurance required, computed without regard to minimum premiums.

**Bank Burglary and Robbery Insurance.**—Bank burglary and robbery insurance provides two distinct coverages which are usually written in one policy. Under this combined coverage the insurance company is liable for losses occurring under the following circumstances :

1. Burglary of money and securities feloniously abstracted during the day or night from a closed and locked safe or vault by any person who shall have made a forcible entry by use of tools, explosives, chemicals, gas, or electricity. This coverage applies on the premises of the insured and elsewhere after removal of the safe by burglars or robbers.
2. Robbery of money and securities from within the premises.
3. Damage of money and securities suffered by the insured or by the owner, to whom the insured is liable, as the result of actual or attempted burglary or robbery and damage, except by fire, to the premises and to all safes, vaults, office furniture and fixtures contained in the premises the insured owns or is liable for. Coverage includes damage resulting from vandalism and malicious mischief.

“Money” means currency, coin, bank notes, and bullion. “Securities” means all negotiable and nonnegotiable instruments or contracts representing either money or other property, and includes revenue and other stamps and all other personal property except money but does not include unsold traveler’s checks the insured may have authority to sell.

**LIABILITY LIMITS.**—Separate amounts of insurance are provided for burglary and robbery and specifically apportioned according to a schedule in the policy. The insurance applicable to any property not owned by the insured is the excess amount over and above a sum sufficient to pay in full losses sustained by the insured.

In case of a misstatement made in good faith by the insured in the description of any safe, chest, vault, or protective appliance, the insurance is not forfeited. If by reason of such misstatement the hazard is greater than contemplated, the liability of the company is not changed, but the insured must pay such additional premium as may be shown to have been due, at the rate in force at the date of the policy, for the actual hazard. If by reason of misstatement the hazard under the policy is less than that

contemplated, the insured is entitled to a refund in premium computed in the same manner. For reasons beyond the control of the insured, he may fail to maintain safety or protection appliances in proper service or to perform other conditions agreed upon. Under such circumstances, excepting combination and time locks, the company's liability continues if at least one watchman is provided to protect the safe until all appliances have been restored to proper working condition. When the insured wilfully or negligently fails to maintain any agreed service or equipment whereby the hazard is greater than contemplated, the liability of the company is limited to that amount of insurance which the paid premium would have purchased at the rates in force at the date of the policy for the actual hazard.

EXCLUSIONS.—Bank burglary and robbery policies do not cover losses under the following circumstances :

1. When the insured fails to exercise due diligence in endeavoring to prevent the negotiation, payment, or retirement of lost securities.
2. When the insured has failed to keep adequate records for loss determination.

The occurrence of any loss or payment or replacement will not reduce the amount of burglary insurance, except as to insurance applicable to the contents of any chest, safe, or vault damaged by burglary. In that event the insurance will be reduced by the amount of the payment, but will be automatically reinstated to the amount as soon as the chest, safe, or vault damaged by burglary is restored to its former condition of safety. The insured must pay the company an additional premium on the amount of loss payment or replacement computed prorata from the date of the occurrence of loss for robbery or from the date of reinstatement for burglary insurance. This additional premium may be waived by purchasing a waiver of restoration premium endorsement.

The policy contains clauses similar to the other policies concerning notice of loss, payment of loss, cancellation, suit, and assignment.

The issuance of the bank burglary and robbery policy depends upon the following important declarations :

1. Location of the building containing the premises.
2. The number of persons in the working force.
3. Types of safes and vaults.
4. Type of alarm system, tear-gas system, and number of watchmen.
5. Other burglary, theft, or robbery insurance on the property.
6. Loss or damage sustained or indemnity received for any loss or damage by burglary, theft, or robbery within the last five years.
7. Burglary, theft, or robbery insurance applied for or carried by the insured, declined or canceled within the last five years.

**PREMIUM CHARGES.**—The premium for a policy covering burglary and robbery is determined for each form of coverage separately. If desired, a policy may be obtained to cover burglary only or robbery only. The burglary and robbery rates are based on the following considerations:

1. Type and equipment of the safe and vault construction. Safes and vaults are classified according to their resistance to burglary.
2. Territorial division. The country is divided into territories based upon past statistics.
3. Population of the town.
4. Discounts. Reduction in bank burglary rates are allowed under the following circumstances: (a) use of approved relocking devices on vaults and safes; (b) use of approved tear-gas systems; (c) when the policy covers several safes, chests, or vaults, a discount is allowed if the liability on any one safe, chest, or vault is limited to a percentage of the total insurance; (d) contribution to support and maintain a county auxiliary protective unit; (e) use of private watchmen; (f) maintenance of approved alarm systems; (g) whether coverage applies to securities only, or silver and subsidiary coin only, or securities, silver, and subsidiary coin only; (h) property damage.

Reductions in bank robbery rates are allowed under the following circumstances: (a) use of guards; (b) use of approved alarm and protective system; (c) use of approved bandit-resisting enclosures; (d) use of approved tear-gas systems; (e) county auxiliary protection unit; (f) inclusion of deductible clause (usually \$5,000).

**Paymaster Robbery Policy.**—A business firm may find it necessary to send an employee, technically called a custodian, to a bank in order to obtain pay-roll funds. For better protection, guards sometimes accompany the custodian. After drawing the funds the custodian may be held up on the way or while distributing money or checks to employees on the premises. Coverage against this contingency is provided by the paymaster robbery policy.

A "custodian" means (1) the insured, (2) a partner or officer of the insured, (3) any other person who is in the regular employ of and duly authorized by the insured to have the care and custody of the property.

The definition of custodian may be amended to include persons not in the regular employ of the insured but duly authorized by the insured to have the care and custody of the insured property. However, under no circumstances will a person acting as a watchman, porter, or janitor within the premises be considered as a custodian. "Guard" means any male person not less than 17 nor more than 65 years of age who

accompanies the custodian by direction of the insured. A driver of a public conveyance is not deemed a guard. Money and securities are defined as in the mercantile safe burglary policy.

A custodian may have occasion to carry funds other than pay roll. Coverage is therefore provided up to 10% of the amount of the insurance for all loss of money and securities not intended solely for the pay roll of the insured. The loss must occur outside the insured's premises. This coverage is a part of and not in addition to the total amount of insurance.

As the money or securities intended for the pay roll may be carried in a wallet or other receptacle, the company is also liable for the loss or damage of the wallet, bag, satchel, safe, or chest in which the property is contained.

As in the open-stock burglary policy there is coverage for damage to the furniture, fixtures, and other property in the premises, and to the premises if the insured is the owner of the premises or if he is liable for the damage.

**WHERE THE LOSS MUST OCCUR.**—In addition to covering loss due to robbery or attempt at robbery from a custodian while engaged in any of his regular duties in connection with the pay roll outside or inside the premises, the policy also covers under the following circumstances:

1. The funds may have been delivered to the insured's premises in order to be paid to the employees on the following day. The custodian might be forced by violence or threat of violence while outside the premises to admit a person into the premises or to furnish him with means of ingress into the premises. However, the loss must occur before the premises are next opened for business.
2. Loss by robbery or attempt at robbery, within the premises, of the money and checks from any of the insured's employees during the day or night on which they were paid, provided there was at the same time a robbery from the custodian or attempt at robbery.

"Premises" may be amended to include (1) the interior of all the buildings on a continuous or contiguous plot of ground, or (2) the bank's premises if the insured's pay-roll is made up there. Two or more floors in the same building, or communicating floors in adjoining buildings, are considered to be a single location. If pay-roll loss is limited while inside the premises only, the coverage can be obtained at reduced rates.

**EXCLUSIONS.**—The company will not be liable for loss:

1. Unless records are kept by the insured in such a manner that the company can accurately determine the amount of loss.
2. To plate glass or lettering or ornamentation on the plate glass.

3. Of any property owned by the United States Government or held by the insured as postmaster.
4. Of manuscripts, records, or accounts. Coverage can be obtained under various destruction of records policies discussed later.

The insured may warrant that the custodian will be accompanied by one or more armed guards. Nevertheless an event may occur beyond the control of the insured which would prevent compliance with the warranty—e.g., while returning from the bank a guard may be injured in an automobile accident. If the insured fails, because of unforeseen contingency beyond his control, to maintain any service or perform any act that he warranted, the insurance will not be forfeited. While the company continues to be liable for any loss occurring during the failure, liability will be limited to the amount of insurance which the premium charged for the insurance applicable to the loss would have purchased under the company's manual of rates in force when the policy was issued, for the actual conditions under which the loss was sustained.

**REINSTATEMENT.**—The occurrence of any loss or payment or replacement does not reduce the amount of insurance. The insured is required, however, to pay the company an additional premium on the amount of loss payment or replacement computed pro rata from the date of the occurrence of the loss to the date on which the policy expires. This additional premium may be waived as in mercantile open-stock burglary insurance by the reinstatement endorsement.

**MISCELLANEOUS PROVISIONS.**—Comparable to the mercantile open-stock burglary policy, the policy contains provisions in reference to premises, property held in trust, assignment, other insurance, notice of loss, proof of loss, subrogation, replacement, recovery of property, reinstatement of losses, and blanket insurance.

Under the policy the insured must make declarations concerning his business; the type of business; the number of custodians; the number of guards; the use, if any, of (1) a private conveyance by the custodian; (2) the type of wallet, bag, or satchel, and whether attached to a messenger or vehicle; (3) a locked safe or chest; whether or not the insured received indemnity for any loss by burglary, robbery, or theft within the last five years; whether or not burglary, robbery, or theft insurance was declined or canceled within the last five years.

**Messenger Robbery Policy.**—This covers against loss of property by robbery or attempt thereat committed while property is being conveyed by messenger outside the premises but within the United States of America or Canada (pay-roll robbery policy provides coverage inside and outside premises). "Messenger" means the insured, or a partner or officer of the insured, or any other person who is in the regular employ of and duly authorized by the insured to have the care and custody of the insured property while being conveyed outside the premises. The defi-

nition of messenger may be amended, as in the paymaster robbery policy, to include persons not in the regular employ of the insured but duly authorized by the insured to have the care and custody of the property. Persons acting as watchmen, porters, or janitors are not considered to be messengers.

The provisions of the policy are similar to the provisions of the paymaster robbery policy. As the policy may cover money, securities, and merchandise, these terms are defined as stated in the mercantile safe burglary policy. The money, securities, and other insured property may be owned by the insured or held by him in any capacity, whether or not the insured is liable for the loss.

An insured who has many business locations may utilize an automobile containing a safe securely attached to the body of the automobile. For an additional premium, a messenger robbery policy may be extended to insure for (1) safe burglary when the automobile is in operation, or (2) safe burglary when the automobile is in operation or garaged, or (3) theft from the safe when the automobile is in operation or garaged. The messenger robbery policy may also be endorsed to cover against loss of profits as in the mercantile open stock policy.

**Interior Robbery Policy.**—The interior robbery policy provides robbery coverage while a custodian is on duty at the insured's premises. The company is liable for all loss of or damage to property, that is, money, securities, or merchandise, while in the premises, and for damage to the premises if the insured is the owner or is liable for the damage, provided the loss is occasioned by (a) robbery or attempt at robbery from a custodian while within the premises; (b) the stealing of the property from within the premises by means of compelling a custodian by violence or threat of violence while outside the premises to admit a person into the premises or to furnish him with means of ingress into the premises. The loss must occur, however, before the premises are next opened for business.

Premises may be amended to include (1) the interior of all the insured's buildings on a continuous or contiguous plot of ground, (2) both approaches to a bridge or tunnel provided that if different rate territories are involved, the higher rate is charged, or (3) a loading-platform attached to the insured's building.

In addition to robbery coverage for loss from within the premises, the company is liable for loss due to the stealing of property from within a show window in the premises while regularly open for business, by a person who has broken the glass from outside the premises or by an accomplice of the person.

The term "custodian" means (1) the insured or partner or officer of the insured; (2) any other person who is in the regular employ of and duly authorized by the insured to have the care and custody of the insured's property within the premises. The definition of custodian may be amended to include persons not in the regular employ of the insured but duly authorized to have custody of the insured property within the premises. As in the paymaster and messenger robbery policies, no person acting as a watchman, porter, or janitor may be deemed a custodian. However, in the interior robbery policy only, by payment of additional premium, such persons may be considered custodians, provided that no merchandise is insured and mercantile safe insurance is carried in at least the same amount, unless the premises are open for business twenty-four hours daily.

**DECLARATIONS.**—The issuance of the policy depends upon declarations made by the insured, such as the insured's business, the location of the premises, the number of employees, if any, in addition to the custodian, the burglar-alarm system, the tear-gas system, other robbery or theft insurance, loss previously sustained and declinations or cancellation of such insurance during the last five years.

The policy contains provisions similar to the paymaster or messenger robbery policies, referring to definition of money, securities, and merchandise, property belonging to others, guards, other insurance, notice of loss, proof of loss, insured's right of recovery, subrogation, payments, replacement and recovery of property. The insured must keep records from which the amount of loss may be determined. This requirement may be deleted as respects property held for safekeeping in hotels, hospitals, and similar risks, provided that a limit of not more than 10% of the amount of insurance applies to property of each person.

The messenger robbery and interior robbery coverages can be written as separate policies or in combination.

**PREMIUM CHARGES.**—The premium charges for messenger and paymaster robbery insurance are based essentially upon the following factors:

1. The territory in which the risk is located.
2. The number of guards accompanying the custodian. There is a gradual reduction in the premium charged as the number of guards is increased, subject, however, to a maximum reduction regardless of the number of guards.
3. Discounts. A reduction in premium is granted under the following circumstances: (a) if a private conveyance is used to carry the property, with a further discount if the conveyance is an armored car; (b) if a locked messenger safe or chest is used or a steel-lined or

wire-meshed wallet or satchel is used, properly attached to the custodian or to the conveyance; (c) if the route of the custodian is restricted to the interior of the building containing the premises as described in the policy; (d) if securities only are covered.

The premium charges for interior robbery insurance depend upon the following factors:

1. The type of business.
2. The territory in which the risk is located.
3. Whether at least one other employee is on duty, in addition to the custodian.
4. Discounts. To promote the reduction of losses, reduced rates are allowed for the following protective devices: (a) employment of guards; (b) holdup alarm and protection system; (c) push-button alarm system; (d) approved bandit-resisting enclosure; (e) approved tear-gas system.

The premium charges for paymaster, messenger, and interior robbery insurance are also subject to the following:

1. At times an insured, such as a construction contractor, may not be able to determine the exact number of exposures and locations. Paymaster robbery insurance covering mercantile and manufacturing risks whose total annual payroll for the year immediately preceding the effective date of the new policy is not less than \$2,500,000, construction contractors, and coal-mining risks where the exact number of exposures and locations and a reasonable estimate of the amount of pay roll for each job cannot be determined in advance of the writing of the policy, can be written on a pay-roll basis. The full manual premium will be charged in advance for the messenger or exposure requiring the largest premium, and an additional premium for all additional exposures which will be adjusted on an audit of the insured's pay roll at the end of the policy period.
2. If the policy covers two or more locations, all locations will be insured at a discount except the one requiring the largest premium, but the minimum premium for each location is not subject to discount.
3. The premiums are subject to modification by the application of experience rating similar to mercantile open-stock burglary insurance.
4. If the sum of the annual minimum premiums produced by the application of the minimum premium rules for (a) interior robbery or (b) messenger and paymaster robbery insurance, amounts to \$750 or more for each class of insurance, the minimum premiums can be reduced 50% as in mercantile safe burglary insurance.
5. Upon payment of an additional premium, the definition of "premises" as used in the interior robbery policy to insure a gasoline service station or a similarly operated risk can be extended to cover the entire plot of ground on which the office or store is located.

6. For an additional premium, messenger and paymaster robbery policies can be extended to cover loss in the home of the custodian. The amount of additional premium depends upon the type of coverage desired, that is, (a) burglary, or (b) robbery, theft, and larceny.
7. For an additional premium, interior and messenger robbery policies may be extended to cover for loss by voluntary delivery of money or securities to someone posing as a legitimate receiver of such property.
8. Coverage on property belonging to others than the named insured may be excluded from the policy.
9. Three-year policy, reinstatement after loss, blanket insurance, and coverage for loss of profits, as in the mercantile open stock burglary policy.

**Storekeeper's Burglary and Robbery Policy.**—The owner of a small store, such as a stationery store or dress shop, may find it too costly to purchase individual policies for mercantile open-stock burglary and mercantile safe burglary and the various robbery coverages. If he purchased separate policies, he would have to pay at least the minimum premium for each form. The "storekeepers' burglary and robbery policy," however, provides the various coverages for a premium which is less than the various minimum premiums required under separate policies, provided the retailer needs only coverages for small amounts, as for example, \$250.

The coverages provided by the policy are as follows :

1. Robbery Within Premises.
  - (a) For loss of property, including furniture, fixtures, and equipment, occasioned by robbery from a custodian within the premises,
  - (b) For loss of merchandise occasioned by the felonious abstraction from within a show window, as in the interior robbery policy, for an amount not exceeding \$250.
2. Robbery Outside Premises. For loss of property, occasioned by robbery from a custodian outside premises but within the United States of America or the Dominion of Canada, to an amount not exceeding \$250.
3. Kidnapping. For loss of the property, including furniture, fixtures, and equipment in case any custodian after the premises were closed for business (a) while he is outside the premises was compelled, under threat of violence, to admit others; (b) while being forcibly detained elsewhere, was compelled to furnish others with information for or means of gaining admittance to the premises, if the loss (1) is occasioned by the stealing of the property from within the premises by the other person, (2) is the direct result of such acts, and (3) occurs before the premises have been opened on the next

succeeding business day for the regular transaction of business, for an amount not exceeding \$250.

4. **Safe Burglary.** This coverage follows the mercantile safe burglary coverage and is limited to an amount not exceeding \$250.
5. **Night Depository—Home of Custodian.** Loss of money and securities, occasioned by burglary, is limited to an amount not exceeding \$250.
6. **Burglary into Premises.** Loss of merchandise, furniture, fixtures, and equipment caused by burglary as defined in the mercantile open-stock burglary policy to an amount not exceeding \$250. As used in this policy, "merchandise" denotes all articles for sale in the premises except personal effects. Liability is limited to \$50 on any necklace, article of jewelry, article containing one or more gems, watch, or precious or semiprecious stone.
7. **Damage.** All damage (except by fire) to the property and premises and to the furniture, fixtures, and equipment therein, including glass and lettering and ornamentation, caused by any burglary or robbery or attempt thereat, provided the insured is the owner of the damaged property or premises or is liable for such damage, to an amount not exceeding \$250. The applicable limit of \$250 on any one loss may be increased in multiples of \$250 by (1) endorsement attached to the policy stating the increased amount, i.e., \$500, \$750, or (2) purchasing additional policies, each with a limit of \$250 on any one loss. A discount is applicable to not more than two increased coverages for the same insured at the same location. The procurement of such additional coverage does not increase the limit of \$50 on any necklace, article of jewelry, etc., as in 6 above. An endorsement to increase the \$50 limit is available.

**EXCLUSIONS.**—The policy does not cover losses under the following circumstances: (1) contributed to by fire or occurring during a fire in the building in which the premises are located, (2) property of the U. S. Government, (3) loss of property held by the insured as postmaster, (4) inadequate records which prevent accurate loss determination.

As in the burglary and robbery policies, this policy contains provisions referring to money, premises, custodian authorized by the insured to act as paymaster, messenger, collector, cashier, clerk or sales person, ownership of property, limitation on pledged goods, notice of loss, proof of loss, prosecution, other insurance, subrogation, and assignment.

Unlike other policies, after loss, any indemnity paid under the policy will not reduce the limit of indemnity applicable to loss or damage. The insurance will continue to apply, subject to the limits of indemnity as before the occurrence of any loss.

**PREMIUM CHARGES.**—The premiums for the storekeepers' burglary and robbery policy and office burglary and robbery policy discussed next depend on (1) territory and (2) amount of insurance.

**Office Burglary and Robbery Policy.**—The office burglary and robbery policy is intended principally for businessmen, operating from offices, who do not sell merchandise. Losses are covered by this policy for limited amounts as in the storekeepers' burglary and robbery policy for the following causes :

1. Robbery from a custodian within the premises.
2. Robbery from a custodian outside the premises.
3. Kidnapping of a custodian.
4. Safe burglary.
5. Robbery, theft, or larceny of office furniture, fixtures, equipment, instruments, supplies, rugs, pictures, paintings, trophies, and draperies subject to a deductible of \$10 from the amount of each claim.
6. Damage, except by fire, to the property insured and to the premises caused by actual or attempted burglary or robbery, provided the insured is owner or is liable for damages covered by the policy.
7. Burglary of money and securities from within any night depository in a bank or within the residence of a custodian.

**EXCLUSIONS.**—The office burglary and robbery policy does not cover damage to glass and the lettering or ornamentation. Gold, platinum, other precious metals, jewelry, precious and semiprecious stones, merchandise, articles held in course of trade, samples, and material held for manufacture, cleaning, repairing, storage, and distribution are likewise excluded.

By endorsement the policy can be extended to include coverage for loss of gold, platinum, and other metals and articles which are used by dentists. A dentist who is located in an office building can purchase an office burglary and robbery policy. Incidentally, the dentist who practices at his residence should purchase residence burglary, theft, robbery, and larceny insurance.

**All-Risk Policies.**—The laws of many states permit casualty insurance companies to issue policies covering many types of loss and damage to money, securities, currency, valuable papers and other instruments, except when in the hands of common carriers and in the mails. The same exclusion applies while the property is in the hands of any transporter for hire. The following are some of the policies included in this group :

1. Money and securities policy (broad form).
2. Accounts receivable policy.
3. Valuable papers.
4. Innkeeper's liability.
5. Individual safe-deposit box.
6. Securities insurance for lessees of safe-deposit boxes.
7. Comprehensive depository liability policy.
8. Blanket safe-deposit box policy.
9. Securities deposited with public officials policy.

**1. Money and Securities Policy (Broad Form).—**Under the fire insurance policy there is no coverage for loss of money. Various policies are available covering loss of money due to burglary or robbery. By the use of the money and securities policy, broad form, however, the company will be liable for all loss of money and securities occurring within and outside the premises and caused by the actual destruction, disappearance, or wrongful abstraction of the money or securities.

In addition the company will be liable for (1) all loss of or damage (except by fire) to property other than money and securities, caused by safe burglary or robbery within the premises; (2) damage (except by fire) to a locked cash register, cash drawer, or cash box in the premises caused by a felonious entry into the container or attempt thereat; (3) all damage (except by fire) to the premises caused by robbery or safe burglary or by a burglarious entry or attempt into the premises; (4) all loss or damage due to robbery or attempt at robbery from within a show window in the premises while regularly open for business, or by an accomplice of the person; (5) all loss of or damage to property, other than money and securities, caused by robbery or attempt at robbery outside the premises of the insured while the property is being conveyed by a messenger.

An analysis of the policy indicates that money and securities are particularly covered against all risk, while loss of merchandise is covered only under the following circumstances:

1. Safe burglary.
2. Holdup of a custodian on the premises.
3. Holdup of a messenger while outside the premises.
4. Theft from show windows while the premises are open for business.

The company is not liable for loss, destruction, or damage caused by (1) war, whether declared or not, invasion, insurrection, rebellion, hostilities, revolution, or military or usurped power, (2) any dishonest, fraudulent, or criminal act of the insured or of any officer, employee, partner, director, trustee, or authorized representative of the insured, whether acting alone or in collusion with others. (This exclusion does not apply, however, to loss, destruction, or damage caused by safe burglary or robbery committed by an employee of the insured.) (3) the giving or surrendering of any money or securities in any exchange or purchase, (4) forgery by whomsoever committed. In addition, the insurance does not apply to manuscripts, to records or accounts, or to plate glass or lettering or ornamentation on the glass.

Although loss caused by dishonesty of employees is not covered by the policy, such coverage can be obtained by fidelity insurance. Incidentally, by endorsement the exclusion for loss by employees can be eliminated

from the outside coverage of the policy if coverage is limited to securities and not money.

The policy provisions are similar to the mercantile safe burglary, paymaster, messenger and interior robbery policies in reference to money, securities, custodian, guard, robbery, ownership of property, records, notice of loss, proof of loss, valuation payment, replacement recoveries, reduction of insurance, restoration, subrogation, limitations, and assignment. If there is other insurance, the insurance afforded by the money and securities broad-form coverage is excess insurance over any other valid and collectible insurance. The definition of messenger or custodian may be amended to include persons not in the regular employ of the insured, but duly authorized by the insured to have the care and custody of the insured property. Under no circumstances will a person acting as a watchman, janitor, or porter be considered as a messenger or custodian. This also applies to the employees of a transporter for hire.

While the policy covers inside and outside the premises, insurance can be written that is limited to either inside or outside the premises. The policy can be written limited to loss of money and securities or limited to securities only, and it may also be endorsed to cover loss of profits as in the mercantile open-stock burglary policy.

The definition of premises may be amended to include the interior of all the insured's buildings on a continuous or contiguous plot of ground. As respects a gasoline service station or similarly operated risk, the policy may be amended to cover the entire plot of ground on which the office or store is located for an additional premium. Two or more floors in the same building, or communicating floors in adjoining buildings, may be considered a single location and can be insured as such.

Under ordinary circumstances, the insured must keep records from which the amount of loss can be readily determined. This requirement may be deleted as respects property held for safekeeping in hotels, hospitals, and similar risks, provided a limit of not more than 10% of the amount of insurance is placed on the property of each person.

**SCHEDULED AND BLANKET POLICIES.**—Basically the policy provides coverage on the premises at one location, which must be stated in the policy, and for one messenger while outside the premises. The policy can be written on a scheduled basis, however, thus covering two or more premises. A separate limit of liability is applied to each of the premises, and a separate limit of liability is applied to each messenger. The policy can be written on a blanket basis as in mercantile open-stock policy.

**NIGHT DEPOSITORY.**—The money and securities broad-form policy covers while the money and securities are in the possession of the insured

or his employees. In order to reduce the possibilities of loss, the insured may keep the money and securities, when the premises are not open for business, in a bank night-depository safe. Under such circumstances coverage is available. Premiums for the money and securities broad form depend upon the following factors :

A. Loss within premises.

1. Territory.
2. Type of safe or vault.
3. Classification of the risk.
4. Amount of insurance.
5. Discounts similar to those available for the interior mercantile safe burglary and robbery insurance, that is (a) number of locations, (b) watchmen, (c) daytime guards, (d) daytime holdup alarm systems, (e) burglar-alarm systems, (f) three-year policy.
6. Experience rating.

B. Outside coverage.

1. Territory.
2. Amount of insurance.
3. Discounts similar to paymaster and messenger robbery insurance.
  - (a) Number of messengers.
  - (b) Private conveyance of messenger.
  - (c) Messenger bag, safe, or wallet.
  - (d) Restricted route of messenger.
  - (e) Three-year policy.
4. Experience rating.

**PAY-ROLL COVERAGE (BROAD FORM).**—A business firm may decide to cover loss of pay roll only under the broad form. Coverage is available limited to money and checks intended solely for the pay roll of the insured against all direct loss or destruction of, or damage occurring (1) when the money and checks are in the custody of a custodian while engaged in any of his regular duties in connection with the pay roll: (a) inside the premises only, or (b) both inside and outside the premises, but within the United States of America or Canada; and (2) while inside the premises when the custodian is absent from the premises.

Following the pay-roll robbery policy, the broad form covers funds other than the pay roll up to 10% of the amount of insurance outside the premises. The exclusions are similar to the money and securities broad form.

Since the policy covers against loss while the custodian is absent from the premises, coverage includes loss of pay-roll money whether or not kept in a safe. The broad-form pay-roll coverage policy defines the term "safe burglary" as in the safe burglary policy.

**2. Accounts Receivable Policy.**—Wholesale firms which sell merchandise on credit must keep a record in their book of accounts, known as the *ledger*, showing the balance of each account outstanding. This

procedure is followed also in connection with retail stores selling goods on the installment plan. There is a possibility that the records may be destroyed or stolen. If the records cannot be duplicated, serious loss may occur because of inability to collect such accounts. Protection against this contingency is provided by the "accounts receivable policy." The policy covers for direct loss resulting from the insured's inability to collect money due the insured from his customers, provided the inability is directly due to any of the following circumstances :

1. Damage to or destruction or loss of the insured's records within the insured premises for any cause except war and kindred perils.
2. Loss caused by or in collusion with any employee (except an officer or partner) or servant of the insured, but only as excess over any other insurance, such as a fidelity bond.
3. If, because of imminent danger of their destruction, the records are removed to a place of safety, coverage will apply during or after the removal. The insured must notify the company in writing, however, of the removal within ten days after removal of the records.
4. By endorsement for an additional premium, the coverage may be included to apply to records while they are conveyed outside the insured's premises or temporarily within another's premises (except for storage) in the United States or Canada, but not while in the mail or in the custody of a carrier for hire.

**DUTIES OF THE INSURED.**—The insured is required to keep a trial balance taken from his general ledger, which must be kept in a fireproof safe or vault in the premises or elsewhere. The records of accounts receivable must be kept within fireproof safes or vaults located within the premises at all times when the premises are not regularly open for business, except when the records of accounts receivable are actually in use or removed to a place of safety because of imminent danger of their destruction. The requirements can be eliminated upon the payment of an additional premium.

The company must have access during business hours to all records of the insured for the purpose of verifying statements of outstanding accounts submitted by the insured and of checking on accounts already settled.

**ADJUSTMENT OF LOSS.**—Unless the amount of loss can be established by some other method, the amount is determined thus :

1. Determine the amount of all outstanding accounts receivable at the end of the same month in the year immediately preceding the year of the loss.
2. Calculate the percentage of average increase or decrease in the monthly total of the insured's outstanding accounts for the 12 months ending the last day of the second month immediately pre-

ceding the month of loss, as compared with the preceding 12 months' period.

3. The amount determined under subdivision 1, increased or decreased by the percentage calculated under subdivision 2, is the amount payable. From the amount so calculated there is deducted (a) the sum of all accounts that can be established after the occurrence of the loss; (b) an amount to allow for probable bad debts which would have been normally uncollectible by the insured in any event.

The company is not liable for any loss until the dates upon which payments of the accounts receivable are respectively due. After payment of any loss, all amounts recovered by the insured on accounts receivable at the time of the loss belong to the company, up to the total amount of loss paid by the company. All recoveries in excess of such amounts belong to the insured.

**3. Valuable Papers.**—Papers such as drawings, manuscripts, and contracts may be very valuable and may cause serious financial loss in case of destruction. Protection against loss or destruction of valuable papers is provided by the valuable papers policy. Under this policy the company is liable for all loss or damage to valuable papers while within the insured's premises. If, because of imminent danger of their destruction, the papers are removed to a place of safety, the insurance also covers the papers at the new location and during removal to or from the new location. The insured must notify the company in writing, however, of the removal within ten days after the removal.

In addition, the policy covers the papers while being conveyed outside the insured's premises or while temporarily within the premises of others, except for storage, but within any of the states of the United States of America, the District of Columbia, or Canada. This outside coverage is subject to a limit of 10% of the amount of insurance, but not in excess of \$5,000. There is no liability for the loss which occurs while the papers are in the custody or possession of and being transported by any carrier for hire, or in the mail. If the insured warrants that the valuable papers will be kept in an approved safe, cabinet, or similar receptacle while not in actual use, discounts are applicable, depending on the protection afforded by the receptacle.

In addition, there is no liability for loss caused by (1) wear and tear, gradual deterioration, vermin, or inherent vice, (2) war, whether declared or not, invasion, insurrection, rebellion, hostilities, revolution, military or usurped power.

If the insured deems it advisable, each valuable paper can be insured separately for a specified amount by being described and enumerated. If the papers are not specifically described, the maximum liability of the

company is \$5,000 on the loss of any one valuable paper, or 5% of the amount of insurance on all papers which are not specifically described and insured separately. This limit of \$5,000 on any one valuable paper may be increased in multiples of \$5,000 for an additional premium. Also, the limit of 5% may be increased to 10%.

The term "valuable papers" means books, maps, films, drawings, abstracts, deeds, mortgages, manuscripts, documents, and similar written, printed, or otherwise inscribed papers and documents used by the insured in his business. The term, therefore, does not include currency and postage, revenue and trading stamps, uncanceled and canceled coupons, securities, checks, drafts, and any written order to pay a sum certain in money, and any written evidence of indebtedness or obligation, and all property carried or held as samples or for sale or for delivery after sale.

In case of loss the company will not be liable for more than the actual cost of reproducing or replacing the lost, destroyed, or damaged property. The company may reproduce or replace the property or pay for the loss, as the company may elect. Indemnification for any loss reduces the limit of indemnity and also reduces the total amount of insurance by the amount of indemnity paid and the value of the property replaced.

As in the various theft policies, there are provisions concerning notice of loss, proof of loss, other insurance, commencement of suit, subrogation, and cancellation.

**4. Innkeepers' Liability Policy.**—Under common law innkeepers are liable for damages to property belonging to guests unless the loss is occasioned by negligence of the guests or by acts of God or of enemies. Many statutes, however, have limited the liability of innkeepers to specific amounts for such articles as money, jewels, and ornaments. These laws may also require that the articles be placed in the innkeeper's safe, and further, that a notice be posted in each guest's room stating that the innkeeper is not liable except for property in the safe. The innkeeper's liability policy is designed to cover his liability to guests.

Under the terms of the policy the company agrees to pay, on behalf of the insured, all sums which he is legally obligated to pay by reason of liability, subject to the limits of the policy for damage due to injury or destruction or loss of the property belonging to a guest while the property is within the premises or in the possession of the insured.

**LIMIT OF LIABILITY.**—The limit of liability for all damages for loss of property of any one guest is \$1,000, and the total limit of liability for all damage because of loss of property during the policy period, subject to the above limitation for each guest, is \$25,000.

In addition to paying for losses, the company will also defend all suits

against the insured, but the company has the right to settle any claims or suits, to pay premiums or bonds to release attachments to an amount which is not in excess of the applicable limit of liability of the policy, to pay all premiums on appeal bonds in any defense but without any obligation to apply for or furnish such bonds or costs taxed against the insured, to pay expenses incurred by the company and all interest accruing after entering of judgment until the company has paid or deposited in the court that part of the judgment which does not exceed the limit of the company's liability.

**EXCLUSIONS.**—The policy does not apply to any of the following:

1. Any liability assumed by the insured under any contract or agreement other than the written agreement by the insured with the guest before the occurrence of the loss increasing the limit only of the insured's statutory liability to a total amount not in excess of \$1,000.
2. Any loss not in excess of \$25, which sum must be deducted from the amount of any loss when determined.
3. Any loss to which the insured has given a release to any person or organization from his or its legal liability.
4. Any loss caused by the spilling, upsetting, or leaking of food.
5. Any vehicle, its equipment, its appurtenance, or any property contained therein.
6. Any property in the custody or possession of the insured for laundering or cleaning.
7. Any article carried or held by guests as samples, for sale, or for delivery after sale.

The policy limit of \$1,000 per guest may be increased in multiples of \$1,000 for an additional premium. Also exclusions 2, 4, 5, 6 and 7 may be deleted in consideration of additional premiums. If coverage against fire is excluded, a discount is applicable.

The policy contains provisions, as in other policies discussed in this chapter, referring to notice of loss, claim or suit, assistance and cooperation of the insured, action against company, other insurance, subrogation, changes, assignment, and cancellation.

**5. Individual Safe-Deposit Box Policy.**—Individuals who rent a safe-deposit box from a bank may suffer loss due to burglary or robbery. As explained previously, coverage for a limited amount is available under the residence theft policy. For large amounts, the individual safe-deposit box policy can be used to cover loss of property except money directly resulting from (a) burglary, as defined in the mercantile safe burglary policy; (b) damage to any of the insured property in the safe-deposit box or boxes, caused by burglary or attempt thereat, or by vandalism or malicious mischief; (c) from robbery, as defined in the

various robbery policies, of any of the insured property from within (1) the vault containing the safe-deposit box or boxes, (2) that part of the bank's premises reserved for the use of customers of the bank in its safe-deposit vault department, (3) the banking enclosure reserved for the use of officers or office employees of the bank while at least one person is regularly at work in the bank, (4) the bank's premises while the insured or any person authorized by him to have the care or custody of the property is conveying the property between the vault and the entrance to the bank's premises at any time while at least one of the bank's officers or office employees is regularly at work in the premises; (d) damage to any of the insured property, caused by robbery or attempt thereat or by vandalism or malicious mischief.

An individual may have occasion to entrust property to a bank for safekeeping that will, physically, be of such size that a safe-deposit box will not hold the property. Such bulky property may be insured if kept in the safe-deposit vault outside the safe-deposit boxes.

The insurance does not apply to property owned by the bank or held by the bank in any capacity, or held by any officer, director, or employee of the bank for the account of the bank. The property covered is limited to property other than money, owned or held in trust or for safekeeping by the insured, or held by the insured as bailee, or in any capacity by reason of which the insured would be liable to the owner for loss or damage. "Money" includes currency, coin, bank notes, and bullion. The policy may provide coverage for money or for loss by theft or larceny at an additional charge.

The provisions concerning valuation of property, notice of loss, proof of loss, prosecution, other insurance, subrogation, cancellation, and assignment are similar to those of the other burglary and robbery policies.

#### **6. Securities Insurance Policy for Lessees of Safe-Deposit Boxes.—**

Instead of a policy limited to loss of property due to burglary or robbery, the securities insurance policy for lessees of safe-deposit boxes covers all loss of securities from within the leased safe-deposit box in any burglar-proof vault in the premises of a designated bank. The policy also covers loss from within the bank, but temporarily outside the safe-deposit box, as space is usually provided in the safe-deposit vault where the insured can examine the contents of his safe-deposit box. In addition, the policy includes all destruction of or damage to the securities.

Under the policy there is no coverage for any of the following :

1. Loss caused by war whether declared or not, invasion, insurrection, rebellion, hostilities, revolution, military or usurped power.
2. Any dishonest or criminal act of the insured or of any partner, director, associate in interest, officer, employee, representative, or relative of the insured.

3. The giving or surrendering by the insured or his authorized representative of any security in exchange for or in purchase of any security or other property.

The agreement applies only to loss occurring and discovered within the policy period. The policy can be continued by a continuation certificate issued by the company. In that event the entire period during which the policy is in force is considered to be the policy period.

“Securities” means all negotiable and nonnegotiable instruments or contracts representing either money or other property, and includes revenue and other stamps in current use but does not include money.

The insured must at all times, during the policy period, maintain verifiable records of all securities in such manner that the exact amount of loss, if any, can be ascertained from the records by the company. The insured is required to examine the securities periodically, and in any event, at least once every 12 months during the policy period. The insured must keep an accurate record of each examination and promptly report the result to the company in writing. Whenever the safe-deposit box is opened, the insured or the insured’s representative must immediately, before leaving the vault, close and duly lock all doors of the safe-deposit box.

The provisions concerning valuation of securities, notice of loss, proof of loss, other insurance, subrogation, and assignment are like those in the policies discussed in this chapter.

**7. Comprehensive Depository Liability Policy.**—The loss of contents of safe-deposit boxes leased to customers has long been a concern of banks operating safe-deposit vaults. Every such bank faces the hazard of sustaining a staggering financial loss from this source. The comprehensive depository liability policy is designed to protect banks against this contingency. Loss may be due to causes such as (a) dishonesty of employees of the bank, (b) unauthorized persons permitted to have access to contents of boxes, (c) defective legal process, (d) forged power of attorney, (e) burglary or robbery where protection equipment is inadequate.

**COVERAGE.**—The insured is covered against the loss or destruction of or damage to money, securities, jewelry, and all other property contained in safe-deposit boxes for which the insured becomes obligated to pay by reason of the liability imposed upon the insured by law for loss or destruction of, or damage of or to, any of the property in the safe-deposit boxes in the safe-deposit vault or vaults in the premises, or within that part of the premises actually occupied by the insured in conducting a safe-deposit business.

The company also agrees to investigate all claims for loss, destruction, or damage, and to defend, in the insured’s name and behalf, any

suits or other proceedings which may be brought against the insured for enforcing the claims.

Furthermore, the company will pay in addition to the company's limit of liability (1) the expense of adjusting all claims which may be settled without litigation; (2) all expenses of litigation, including all costs taxed against the insured in proceedings defended by the company; (3) all premiums for appeal bonds. If a bond is required for releasing attachment of the insured's property, the company will pay the premium on that portion which secures payment of any amount not in excess of the company's limit of liability. The company is not under any obligation to apply for or to furnish the appeal or release of attachment bonds.

Under the policy there is no coverage for loss (a) for any liability assumed by the insured under any contract or agreement (b) of property owned by or held as collateral or to property held in trust by the insured for more than thirty days.

The company must be permitted at any reasonable time to inspect the premises and vaults. The insured, upon knowledge of a claim or of any occurrence which may give rise to a claim, must give written notice with the fullest information obtainable to the company or to any of its authorized agents as soon as practicable. If a claim is made or a suit is brought against the insured, the insured must immediately forward to the company every demand, notice, summons, or other process received by him or his representative.

The insured must cooperate with the company in facilitating the investigation and disposition of claims and suits. Upon the company's request the insured must attend hearings and trials and assist in the conduct of suits, in making settlements, in securing and giving evidence, and in obtaining the attendance of witnesses. The insured cannot, except at his own cost, voluntarily assume any liability or incur any expense, nor can he settle any claim without the written consent of the company, previously given. The company cannot settle any claim, suit, or other proceeding without the written consent of the insured, unless a judgment is awarded against the insured as the result of an actual trial.

The face amount of the policy is not reduced by the payment of any loss.

Provisions for subrogation, other insurance, and assignment are similar to the various burglary and robbery policies.

**8. Blanket Safe-Deposit Box Policy.**—The comprehensive depository liability policy makes the insurance company liable provided the legal liability for the loss can be proven against the insured, that is, the bank. However, insurance is available whereby the company agrees to pay for loss of customers' property in safe-deposit boxes due to burglary or robbery of property, except money, regardless of the legal liability

of the bank. Liability is limited to 10% of the amount of insurance for any one safe-deposit box. The coverage for burglary and robbery is similar to the burglary and robbery coverage of the individual safe-deposit box policy, and also includes damage (except by fire) to the premises and all furnishings, fittings, fixtures, equipment, safes, and vaults, likewise caused, provided the bank is the owner or is liable for the damage.

Similar to the comprehensive depository liability policy, the company will defend in the name and on behalf of the insured any suits which may be brought at any time against the insured for loss or damage or alleged loss or damage, and will pay all costs taxed against the insured in any legal proceeding defended by the company, and all expenses incurred by the company for investigation, negotiation, and defense, which payment will be in addition to and not a part of the limits.

Comparable to the comprehensive depository liability policy there are provisions for property insured, notice of loss or suit, proof of loss, prosecution, valuation, payment, replacement recoveries, other insurance, subrogation, assignment, and reinstatement of amount of insurance.

There is a possibility that the insured may not comply with a warranty of the policy. Under such circumstances the policy continues in force as in the bank burglary and robbery policy.

**9. Securities Deposited with Public Officials Policy.**—The owner of securities or his representative may have occasion to deposit securities with public officials. Coverage against loss of securities so deposited is provided by the "securities deposited with public officials" policy. The company agrees to be liable for all loss, destruction of or damage to securities while in the custody and possession of the public official, called custodian, if it occurs under any of the following circumstances :

1. While within the premises occupied by the custodian, as stated in the policy.
2. While the securities are within the premises of any of the depositories designated in the policy, provided that the securities have been deposited in such depositories by the custodian for safekeeping.
3. While the securities are being conveyed by the custodian or his employees outside the premises of the custodian but within the United States of America or the Dominion of Canada.

Under the policy the company will not be liable under the following :

1. For any loss occurring while the securities are being transported by a carrier for hire or in the mail.
2. For any loss caused directly or indirectly by or contributed to by (a) any act of or transaction authorized by the insured or any partner, director, associate in interest, officer, employee or repre-

sentative of the insured or any group of such persons; (b) forfeiture, confiscation, seizure, sale, delivery, or retention of the securities pursuant to any law, court order, or government or public authority; or (c) refusal to return or credit the securities to the insured, under any claim of right, by any receiver, trustee, assignee, or other fiduciary appointed by or under any law order, or authority; (d) war.

The term "securities" as used in the policy means all negotiable and nonnegotiable instruments or contracts representing either money or other property, and includes revenue stamps but not manuscripts, records, accounts, postage stamps, or money.

The insured must at all times, during the policy period, maintain verifiable records of all securities covered, in such manner that the exact amount of loss, if any, can be ascertained from the records by the company. The insured must have the securities examined periodically, and in any event, at least once every 12 months, during the policy period. The insured must keep an accurate record of each examination and promptly report the result to the company in writing.

The policy contains provisions similar to the various policies discussed in this chapter referring to other insurance, proof of loss, prosecution, valuation, replacement, recoveries, reduction of insurance, subrogation, and assignment.

### QUESTIONS AND PROBLEMS

- (a) *B* entered *A*'s premises by means of a passkey and stole merchandise valued at \$1,000.

(b) *C* threatened to shoot *D* unless *D* gave up his money, which was in his pockets.

(c) *E* went on *F*'s porch, and with a knife forced open the window of *F*'s residence.

(d) *G* entered *H*'s home and stole a coat.

What are the crimes committed by *B*, *C*, *E*, and *G*?
- M* purchased a residence policy with divided coverage. Coverage for section (a) was \$4,000, and for section (b), \$1,000, and \$2,500 theft away from premises. Discuss the company's liability under this policy in the following circumstances, and also indicate the company's liability if *M* had purchased a \$5,000 residence policy with 50% blanket coverage, and if *M* had purchased 100% blanket coverage:

(a) *L*, a servant, stole \$400 jewelry, and *Q*, a guest, stole rugs and laces valued at \$600.

(b) Property valued at \$500 disappeared from *M*'s residence.

- (c) Jewelry owned by *M*, amounting to \$1,000, was stolen from a bank vault.
- (d) *P* requested *M* to keep some of his clothing on *M*'s premises while *P* was away on a trip. The clothing was stolen from *M*'s home.
- (e) Suppose that, in the above problem, *M* had placed *P*'s clothing in a warehouse and the clothing had been stolen.
- (f) *M* kept \$150 worth of clothing in a garage. The clothing was stolen.
- (g) *M* lived in a two-family house and had a private garage on his premises for his automobile. Clothing valued at \$50, securities worth \$700, money amounting to \$150, and an automobile valued at \$1,000 were stolen from the garage.
- (h) Clothing valued at \$200, belonging to his daughter, and \$100 jewelry, belonging to his wife's aunt, who was visiting him, were stolen from *M*'s residence.
- (i) Thieves entered *M*'s home and stole \$100 worth of clothing belonging to *M*'s servant, and \$400 worth of jewelry belonging to his guest. The guest had insurance covering him against the loss.
- (j) *R* broke into the premises and damaged furniture belonging to *M* to the extent of \$500.
- (k) During the summer, *M* rented his home to *Q*. Burglars entered the premises and stole \$300 worth of clothing, a \$200 watch belonging to *M*, and \$500 worth of clothing belonging to the tenant.
- (l) Suppose, in the case just presented, that the theft had been committed by the tenant's son, and that the tenant did not notify *M* of the theft. Three months later, on returning from his vacation, *M* immediately notified the company.
- (m) *M*, who lived in New York, moved to Des Moines, Iowa, on January 20. While his goods were being transported in a moving van, clothing and furniture valued at \$500 were stolen.
- (n) On February 8 burglars entered *M*'s home in Des Moines and stole jewelry amounting to \$1,000.
- (o) While *M* was away on vacation, burglars entered *M*'s apartment and stole two watches valued at \$3,500, a diamond ring belonging to *M*'s wife, which cost \$1,000, and various articles of clothing belonging to *M*'s son, valued at \$400.
- (p) *M*'s servant was robbed at a hotel when he was not working for *M*. *M*'s servant lost a pocketbook and two articles of jewelry worth \$125.
- (q) While *M* was traveling in Mexico, the following were stolen from his residence: jewelry valued at \$4,100, clothing valued at \$50, a stamp collection valued at \$150, securities valued at \$100, and money amounting to \$75.
- (r) *M*'s cousin, who lived in *M*'s home, stole the following from *M*'s residence: clothing valued at \$250, belonging to *M*, and a watch worth \$100, belonging to *F*, a boarder.

- (s) *M* lived in a two-family house and had a private garage on the premises for his automobile. Clothing valued at \$500 was stolen from the residence, and a dog worth \$50 was stolen from the garage. The clothing was held for sale to retail customers.
  - (t) On February 15 *M* closed his home for four months and returned on June 15. On June 16 *M* closed his home again and returned on September 16. On September 20 *M*'s home was entered by thieves and clothing valued at \$500 was stolen.
  - (u) *R* broke into *M*'s home and started a fire causing \$1,000 damage to *M*'s clothing.
  - (v) *M* suffered a loss of jewelry on January 15. The company paid \$1,000. Subsequently, *M* suffered a second jewelry loss on January 30, amounting to \$4,500.
  - (w) *M* suffered a \$500 loss of clothing due to theft at *M*'s residence. The loss occurred March 15; *M* notified the police March 20.
  - (x) *M* sent a coat valued at \$250 to his son by express. He accepted a receipt from the express company limiting the liability of the company to \$50. The coat was lost during transportation.
  - (y) While *M*'s wife was at a restaurant, her fur coat, valued at \$600, was stolen. In addition to his theft away from residence insurance, *M* also had a fur floater specifically insuring the coat for \$500 against loss due to practically any cause.
  - (z) *M*'s wife possessed a set of earrings valued at \$500. One of the earrings was stolen. The value of the remaining earring, as there was no longer a set, was only \$100.
  - (aa) On June 15 *M* suffered a \$1,500 jewelry loss. On August 10 the company recovered the jewelry. Due to a change in market value, the jewelry was worth only \$1,200.
  - (bb) *M* reported a clothing loss amounting to \$500. The company investigated the loss and ascertained that *Z*, who was *M*'s guest, committed the theft.
  - (cc) One week after *M* died, robbery was committed at the premises and his wife lost jewelry valued at \$1,500.
  - (dd) *M* sent clothing to a dry cleaner for processing. The sign posted in the cleaning establishment read, "Not responsible for property uncalled for in 30 days." Two months later, *M* remembered that the clothing had not been returned. The cleaner could not find the goods.
  - (ee) Describe the features of the householder's limited theft policy and endorsement which differ from the residence theft and away from premises policy.
3. A residence policy divided coverage provided insurance for section (a) \$2,000 and section (b) \$500. The policy was subject to the 80% co-insurance clause. The insured suffered a \$1,000 jewelry loss and a \$500 clothing loss. The value of goods belonging to the insured immediately prior to the loss was as follows: goods covered by section A, \$4,000; goods covered by section B, \$1,000. Discuss the company's liability.

4. Basis for premium charge, residence theft, theft away from premises?
5. *X*, a manufacturer and retailer of fur and cloth coats, had a \$10,000 mercantile open-stock burglary policy. State company's liability:
  - (a) *B* entered *X*'s premises by the use of a passkey and stole merchandise valued at \$1,000.
  - (b) *X* occupied the second floor of a factory building. *B* opened the street door by the use of a jimmy. He then went to the second floor, entered *X*'s premises, and stole merchandise valued at \$1,000.
  - (c) By the use of bodily force, *B* opened the door of *X*'s premises. *B* stole \$100 worth of goods.
  - (d) *B* opened *X*'s door by the use of a jimmy. *B* stole \$1,000 worth of goods from *X*'s premises. While gathering these goods, *B* broke two fixtures belonging to *X*, valued at \$500. Shortly after *B* left the premises, fire broke out, causing a \$2,000 loss.
  - (e) *X* had packed and sold to *R* goods valued at \$500. Burglars broke into *X*'s premises by the use of force, and stole the package.
  - (f) *X* had a display window on the street level of his factory. Burglars broke the plate glass and stole cloth coats valued at \$400 from the show window.
  - (g) State the company's liability in the above problem just analyzed if the stolen articles had been kept in a showcase on the outside of the building.
  - (h) *X*'s employee, after working hours, broke into *X*'s premises and stole goods valued at \$1,000.
  - (i) A burglar broke into *X*'s premises, and *X* claimed that goods valued at \$4,000 were stolen. *X*'s records were examined in order to determine the loss. He did not keep any physical inventory system. When asked how he knew that goods valued at \$4,000 had been stolen, *X* stated that he remembered in detail each item of stock.
  - (j) A fire occurred in the first story of the building. During the course of the fire, burglars broke into *X*'s premises and stole \$1,000 worth of goods.
  - (k) *X* kept several fur coats on display in a show window of the premises. Burglars broke the show window by throwing a stone, and stole a \$3,000 fur coat. The value of the plate glass was \$500.
  - (l) State the company's liability in the case just presented if the burglars took ten cloth coats valued at \$500.
  - (m) *X* warranted in the policy that he would maintain a burglar-alarm system. Burglars broke into *X*'s premises and stole goods valued at \$2,000. The investigators of the insurance company discovered that *X*'s employee had failed to set the burglar alarm before he left the premises.
  - (n) *X*'s night watchman admitted a person who claimed he was a fire department inspector. The person was a robber who tied up the watchman and then stole goods valued at \$1,000.
  - (o) A burglar stole cloth coats in various stages of manufacture, valued at the time at \$2,000; *X* could have sold them for \$2,500.

6. *Z*, who was a jeweler, purchased a mercantile open-stock policy for \$5,000. A burglar opened *Z*'s premises by the use of a jimmy and stole five rings, each valued at \$250. What is the company's liability?
7. Calculate the company's liability in the following, assuming that the coinsurance percentage is 80% and the amount required to avoid coinsurance is \$10,000 under an open-stock burglary policy :

(1)	(2)	(3)
Value of Inventory	Actual Insurance	Loss
\$40,000	\$25,000	\$5,000
25,000	15,000	4,000
20,000	20,000	3,000
15,000	4,000	5,000
5,000	2,000	1,000

8. Explain the company's rights in the following under a mercantile open-stock burglary policy :
- Goods belonging to *F* were stolen from *N*'s factory. The company settled the claim with *F*.
  - Suppose *F* refused to accept the company's offer and sued *N*.
  - N* made a loan of \$525 to *F*. *N* held *F*'s goods, valued at \$1,000, at *N*'s premises as collateral for the loan. *F*'s goods were stolen from *N*'s premises.
9. Compare the provisions for assignment, notice, and proof of loss of the residence theft policies and mercantile open-stock burglary policy.
10. *R* had a \$25,000 mercantile open-stock burglary policy endorsed with theft coverage. Discuss the company's liability for the following :
- A burglar entered the premises by the use of a passkey and stole \$5,000 worth of merchandise.
  - Suppose, in the above problem, that the theft occurred during business hours.
  - R* claimed a loss of \$2,000 due to theft. The last physical inventory record that was prepared by *R* was made eight months prior to the loss.
  - At the end of the year, *R* prepared an inventory. He discovered a merchandise shortage of \$1,500. The sales for the last five years were approximately the same amounts, and the average shortage was \$600.
11. (a) What declaration must be made by a merchant in order to obtain a mercantile open-stock burglary policy?
- (b) What factors determine the premium charge for mercantile open-stock burglary insurance?
12. (a) *Q* had a \$5,000 mercantile safe burglary policy. Describe the company's liability under the following conditions :
- Burglars entered *Q*'s premises and opened the safe by manipulating the lock.

- (2) Burglars entered the premises and opened *Q*'s safe by the use of explosives. As a result, various articles belonging to *Q* were damaged. *Q* claimed damage of \$500 to property in his safe, \$1,000 to merchandise outside the safe, and \$200 for damage to plate glass.
  - (3) Burglars entered the premises and removed the safe. The burglars broke open the safe and stole merchandise valued at \$1,250 and bonds valued at \$1,000. Damage to the safe was \$100.
  - (4) In the case just presented, the burglars also caused a fire which resulted in a merchandise loss of \$2,000.
  - (b) Compare the exclusions of the mercantile safe policy and the mercantile open-stock burglary policy.
  - (c) What declaration must be made by the applicant for a mercantile safe policy?
  - (d) What factors determine the premium charge for mercantile safe burglary insurance?
13. (a) The *A Bank* had a \$100,000 bank burglary and robbery insurance policy. Discuss the company's liability for the following:
- (1) Burglars entered the bank and stole \$50,000 in negotiable securities and \$1,000 in revenue stamps. *A Bank* was unable to furnish the security record after the loss.
  - (2) *A Bank* made a mistake in describing the vault where the securities were kept. Subsequently there was a \$10,000 burglary loss.
  - (3) In accordance with the terms of the policy, the bank warranted the use of a private watchman. Due to sudden ill health, however, the watchman had to be taken home. Immediately thereafter the robbery occurred.
  - (4) As a result of burglary, a thief obtained bearer bonds worth \$50,000. The bank failed to notify the various companies that had issued the bonds.
- (b) Compare the provisions for the reduction in insurance after loss in the mercantile open-stock burglary policy and bank burglary policy.
  - (c) What are the important declarations the applicant for bank burglary and robbery insurance must make in order to obtain a policy?
  - (d) What factors determine the premium charge for bank burglary and robbery insurance?
14. (a) *G* had a paymaster robbery policy for \$2,000. What is the company's liability in the following situations:
- (1) *B*, the paymaster, went to the bank and obtained money for the pay roll amounting to \$1,500. While *B* was returning to *G*'s premises, a robber stole the pay roll.
  - (2) Suppose *B* was also employed as a watchman and was accompanied by a guard who was 66 years old.

- (3) *B*, the paymaster, went to the bank and drew \$400 for the pay roll. In addition, he cashed a check of \$400 intended for the personal use of *G*'s friend. While on his way back to *G*'s premises, *B* was robbed of all the funds.
  - (4) Suppose the robbery occurred on *G*'s premises. The money was in a bag, and the bag with also taken by the robbers.
  - (5) *B*, the paymaster, drew \$1,500 from the bank and returned to *G*'s premises. While he was distributing the money to *G*'s employees, a robber entered and held up *B* and the other employees. The robber took \$250 from *B* and \$750 from other employees. Of the amount taken from the employees, all but \$200 was distributed by *B*.
  - (6) *B*, the paymaster, went to the bank to collect a \$2,500 pay roll. He did not return to *G*'s premises.
  - (7) *G*'s wife was not on *G*'s pay roll. She went to the bank for the pay roll. While returning to *G*'s premises, she was robbed.
  - (b) Compare the exclusions of the paymaster robbery policy and the mercantile open-stock robbery policy.
  - (c) Compare the reinstatement clause of the paymaster robbery policy and the mercantile open-stock burglary policy.
  - (d) What declarations must the applicant make in order to obtain a paymaster robbery policy?
15. (a) *N*, who was a retailer of dresses, had a \$15,000 messenger and interior robbery policy. Discuss the company's liability under the following conditions:
- (1) While on his way at 9 P.M. to deliver \$200 worth of merchandise to a customer, *N*'s messenger was robbed.
  - (2) A robber entered *N*'s premises at 4 P.M. He held up a salesman and stole \$500 worth of goods. In addition, the robber demolished two showcases valued at \$500.
  - (3) A robber held up *N*'s store manager on Saturday night. The robber forced the manager to return to the store and open the premises. The robber stole \$1,000 worth of merchandise and \$500 in cash.
  - (4) A robber entered *N*'s store, held up the porter who was the only employee in the store, and stole \$1,000 worth of merchandise.
  - (5) What if, in the above problem, *N* had left the store in charge of one of his friends for a few hours?
  - (6) *N* sent his messenger to deliver a \$500 package of merchandise. The messenger was accompanied by a guard. The messenger and the guard were held up and the package stolen. The investigator of the insurance company ascertained that the guard was 70 years old.
  - (7) *N* warranted that he would use two guards to accompany the custodian. One day the messenger took a package of

securities valued at \$2,500, and was accompanied by two guards. On the way, one of the guards suffered an accident. The messenger continued with only one guard and subsequently was held up and the securities were stolen.

- (8) While *N*'s premises were open, *C* broke the show window and stole merchandise valued at \$750.
  - (9) *N* told a messenger to deliver \$600 to a near-by wholesaler. While walking, the messenger met a person who claimed to be a representative of the wholesaler. The messenger gave him the \$600. Later the wholesaler claimed that he never received the money.
- (b) What declarations must be made by the applicant for insurance in order to obtain (1) a messenger policy, (2) an interior robbery policy?
  - (c) Compare the provisions of the messenger and interior robbery policy and the paymaster robbery policy.
  - (d) What factors determine the premium charge for messenger and paymaster robbery insurance?
  - (e) What factors determine the premium charge for interior robbery insurance?
16. (a) *R* had a storekeeper's burglary and robbery policy. Discuss the company's liability under the following conditions:
- (1) While *R*'s premises were open for business, a robber entered and stole merchandise valued at \$100. The store was in *B*'s charge. *B* was 16 years old.
  - (2) While the premises were open, *F* broke the show windows from the outside and stole \$150 worth of merchandise.
  - (3) While delivering merchandise valued at \$100, *R*'s custodian was robbed. The robbery occurred at 10 P.M.
  - (4) After the store was closed, *B*, the salesman in charge of the store, was taken into custody by *F* and detained for three days. He was then required to return with *F* and open *R*'s store. *F* then stole \$50 worth of goods.
  - (5) After the store was closed, a burglar entered and manipulated the lock of the safe. He stole merchandise valued at \$100.
  - (6) After *R*'s premises were closed, *B*, the salesman in charge of the store, took the receipts amounting to \$80 to his home. That night a burglar opened the door of *B*'s residence with a passkey and stole the money.
  - (7) After the premises were closed, a burglar broke in and stole cigarettes valued at \$250, damaged furniture, causing a loss of \$100, and broke a plate glass valued at \$100.
  - (8) What if personal effects valued at \$100 were stolen?
  - (9) *R* suffered a loss of general merchandise, due to burglary, amounting to \$150. Two weeks later *R* suffered another loss of merchandise, due to burglary, amounting to \$200.

- (b) Compare the general provisions and exclusions of a storekeeper's burglary and robbery policy with the mercantile open-stock burglary policy.
- (c) How is the premium determined for the storekeeper's burglary and robbery policy?
17. (a) Compare the coverage and exclusion of the office burglary and robbery policy with the coverage and exclusion of the storekeeper's burglary and robbery policy.
- (b) *M* practiced as a dentist in an office building. *Z* practiced as a dentist in his own office. Which form of theft insurance would you recommend to *M* and *Z*, respectively?
18. (a) *Q* had a \$15,000 money and securities destruction policy. Discuss the company's liability under the following conditions:
- (1) A burglar entered *Q*'s premises after the premises were closed and found the safe open. *Q* suffered the following losses: money, \$1,000; negotiable bonds, \$2,000; records valued at \$100; revenue stamps, \$50, and merchandise, \$1,000.
  - (2) As a result of a tornado, \$250 worth of merchandise was destroyed.
  - (3) Suppose *Q* also lost a manuscript valued at \$500.
  - (4) *Q* placed a \$1,000 bond on his desk. One hour later the bond was not on the desk.
  - (5) While *Q*'s premises were open, a thief broke a window and stole merchandise valued at \$1,000.
  - (6) While *B*, who was *Q*'s messenger, was delivering merchandise, he was held up and robbed of a package worth \$1,500. He also carried \$1,500 cash and a \$1,000 bond belonging to *Q*. The money and securities were also stolen.
  - (7) *C*, who was a messenger, carried a \$2,500 pay roll in a wallet which he kept in his pocket. The money was lost, but *C* could not give any reason for the loss of the money. However, he denied that he took the funds.
  - (8) *Q*'s employee, *B*, came to *Q*'s office and presented the manager, *A*, with a letter purporting to be from *Q*. The letter ordered *A* to deliver to *B* a \$1,000 United States bond. *A* delivered the bond to *B*. *Q*'s signature had been forged in the letter.
  - (9) Describe the company's liability in the case just presented if the letter stated that *A* should surrender the bond in consideration of ten shares of stock of the *X Company*, which were valueless.
- (b) Compare the provisions of the money and securities policy, broad form, with the mercantile safe burglary and paymaster messenger and interior robbery policies.

- (c) What factors determine the premium for the money and securities, broad form, policy.
- (d) Compare the coverage of the paymaster robbery policy and broad form pay-roll coverage.
19. (a) *M* had an account receivable policy. What is the company's liability under the following circumstances:
- (1) *M*'s bookkeeper took the book of outstanding accounts to his home. During the night a windstorm destroyed the bookkeeper's home and caused the loss of the book.
  - (2) As a result of riot occurring while the premises were open for business, *M*'s books of account were destroyed while on the desk of the bookkeeper.
  - (3) What if the loss occurred because of theft?
  - (4) For an unexplained reason, the books containing the outstanding accounts disappeared from the safe.
  - (5) Following a fire during the day, thieves entered *M*'s premises and stole *B*'s books of account. The books of account had remained on the bookkeeper's desk. *M* kept a copy of his trial balance in his safe.
  - (6) The books of account were lost on June 10 after business hours. On that day the outstanding accounts amounted to \$150,000. A statement had been prepared by the bookkeeper, however, indicating that \$2,000 of these accounts, which were uncollectible, had remained on the books before the close of the preceding accounting period. In addition, the percentage of bad debts based upon the previous three years' experience was 2%.
- (b) Outline the methods available to prove the loss under the accounts receivable policy.
20. (a) *A* had a \$25,000 valuable papers policy. Discuss the company's liability under the following conditions:
- (1) *B* entered *A*'s premises, destroyed various records valued at \$1,000, and stole \$100 in cash.
  - (2) Because of a fire in the adjoining premises, *A* removed maps from his office to his home on January 15. The maps, listed at \$1,500, were stolen from his home on January 20.
  - (3) *A* sent a manuscript to one of his friends by mail. The manuscript was stolen from the mails. *A* filed a claim for \$1,000.
  - (4) *A* was unable to find some records in his office. *A* claimed a loss of \$800.
  - (5) *A*'s manuscript was destroyed by vermin. The value of the manuscript was \$2,500.
  - (6) A manuscript belonging to *A* was destroyed by fire. *A* filed a claim for \$3,000 covering cost of typewriting, paper, and loss of his time. The company, however, desired to pay only the

the cost of paper and the stenographic work required to reproduce the manuscript.

- (b) *A* desired to insure all his manuscripts for \$10,000. What is the maximum liability on any one manuscript?
  - (c) Compare the general provisions of the all risk valuable papers policy with the money and securities broad form policy.
21. *F* had an innkeeper's liability policy. Describe the company's liability under the following conditions:
- (a) While one of *F*'s employees was delivering to the railway station a trunk belonging to *N*, who had been a guest of the hotel, the trunk was stolen. The value of the trunk was \$1,500.
  - (b) *F* posted a notice in the rooms of the hotel stating that the company would not be liable for any effects of guests except when they were within the safe belonging to *F*. *N*'s securities, valued at \$1,500, were deposited in *F*'s safe, which was subsequently carried away by burglars.
  - (c) A burglary occurred and jewels, valued at \$30,000, belonging to a guest, were stolen.
  - (d) *N*, a guest, deposited jewels in *F*'s safe. As a result of explosion, the safe was damaged, the jewels were lost, and *N* was injured.
  - (e) *N*, a guest, placed an automobile valued at \$1,000 in *F*'s garage. The automobile was stolen from the garage.
  - (f) *E*, a guest, checked a silk dress, which was placed in the custody of *F*. When the dress was returned, *E* claimed that it had been damaged. *E* admitted that she had worn the dress for three years.
  - (g) While *H*, a guest, was dining, a waiter spilled some soup on *H*'s dress. *H* claimed \$100 from the hotel for the damage to the dress.
  - (h) *C* gave a suit of clothes to the hotel to be pressed. The suit was damaged during pressing. *C* claimed \$40.
22. (a) On June 10, 1951, *Y* purchased a \$50,000 individual safe-deposit box insurance policy. Discuss the company's liability for the following: *Y* brought his safe-deposit box into a room in the vault of the bank. While *Y* was counting his securities, a robber entered and stole two bonds worth \$3,000.
- (b) *Y* purchased an all risk securities policy for his safe-deposit box on January 10, 1951. Discuss the company's liability for the following:
- Y* brought his safe-deposit box into a room at the vault on February 1, 1951. When *Y* examined his securities, he discovered that a \$5,000 bond and money amounting to \$500 were missing. *Y* had previously examined the contents of his safe-deposit box on January 1, 1951, and had personally locked the vault containing the safe-deposit box.

- (c) The *A Bank* purchased a \$500,000 comprehensive depository liability policy on June 15, 1951. Discuss the company's liability under the following conditions:
- (1) On August 15, *B*, who was in charge of the safe-deposit vaults, negligently permitted *C* to open the safe-deposit box in which *D*'s property was kept, despite the fact that *C* had not properly identified himself. On September 15 *D* examined the contents of the safe-deposit box and discovered that securities valued at \$25,000 had been stolen.
  - (2) *C*, who had a safe-deposit box in the *A Bank*, opened the safe-deposit box and entered one of the rooms in the vault in order to check his securities and jewelry. *B*, an employee of the *A Bank*, who was in charge of the safe-deposit vault, permitted *E* to enter the vault. *E* held up *B* and *C*, and took the jewelry which was in *C*'s safe-deposit box. The value of the jewelry was \$50,000.
- (d) Enumerate the exclusions of the comprehensive depository liability policy.
- (e) The *A Bank* purchased a blanket safe-deposit box policy for \$150,000. Discuss the company's liability for the following:
- (1) Burglars entered the *A Bank* and took \$60,000 in bonds and \$2,000 in cash from one of the safe-deposit boxes.
  - (2) *B*, a depositor, examined the contents of his safe-deposit box and discovered that bonds valued at \$10,000 were missing.
- (f) Compare the warranty clause of the blanket safe-deposit policy and the banker's burglary and robbery policy.
- (g) The *Z Company* deposited bonds valued at \$95,000 and cash amounting to \$5,000 with a city official to guarantee performance of a contract. The *Z Company* purchased a policy covering the securities deposited with public officials. Discuss the company's liability for the following:
- (1) The securities and money were placed in a safe-deposit vault by the city officials. The bonds disappeared.
  - (2) The bonds were sent by the city to a depository by express. During transportation, the bonds were stolen.
  - (3) The *Z Company* claimed that the contract was completed, and requested the return of the securities from the city. However, the city failed to comply with the *Z Company's* request.
- (h) Compare the requirements for examination under the securities deposited with public officials policy with the securities insurance policy for individual lessees.

## CHAPTER 13

### TITLE INSURANCE

**Reason for Development of Title Insurance.**—Every purchaser of real property covering land, or land and buildings, demands a deed describing his title to the property that he has purchased. Before he accepts this deed, the public records covering everything which appertains to the property, as well as to the previous owners, should be investigated.

The general practice is to hire a lawyer when purchasing property, since the average purchaser has neither the training nor the knowledge for determining the validity of the title. Any lawyer who undertakes to examine the title to real property holds forth that he is competent to examine titles, and that in good faith he will use with skill the knowledge which he has obtained. He does not guarantee, however, the result of his work. The professional conveyancer who examines a title gives his opinion based upon his examination. His duty is to make an abstract of the title and to furnish his client with a summary of the records covering grants, conveyances, wills, liens, encumbrances, judicial proceedings, mortgages, taxes, assessments, and any other matters which may affect the title. Failure to perform this work properly makes the one preparing the abstract liable for loss that his client may suffer. He is not liable, however, for any defects not within the public records. He cannot state whether the public records covering previous conveyances are the original instruments which were used. He can only state that he believes them to be copies of the original instruments. He has the right to make this statement because he may assume that any given instrument, as it appears on the record, is authentic and not a forged instrument. He may also presume that the signer of any instrument affecting the title was competent and not insane at the time of the signing. He may assume, in the case of a will, that citations have been served upon all the heirs-at-law of the deceased who formerly owned the property, and that no one was omitted. If, as a result of his examination of the records, the conveyancer decides that the title is marketable, both in accordance with the facts and in accordance with the law, he is not liable for any defect. All that is required of him is the application of ordinary and proper skill.

**Causes Proving Titles Defective.**—Defective titles may result from various causes, including the following :

1. Transfer of a title based upon an invalid will.
2. Defective probate of a will covering the property.
3. Dower claim of the widow of one of the former owners of the property.
4. Transfer of the property by a forged deed.
5. Defective foreclosure of the property.
6. Execution of a deed by a lunatic.
7. False affidavits.
8. Claim of old lanes and roads which may cross the property.
9. Liens omitted from the search of the property.
10. Undiscovered heirs to the property.
11. Defective acknowledgment, which is material to any of the subject matter, in any of the papers covering any transfer of the property.
12. Transfer of the property by an invalid power of sale given by one of the former owners.
13. Undiscovered wills affecting the property.
14. Mistake in the description of the property.
15. After-born children who have never been included in a transfer of the property.
16. Placing the property in a trust which may be illegal.
17. Hitherto undisclosed restrictions on the property.

To cover the many hazards involved in a real estate transfer, title insurance guarantees the result of an examination of any title to a purchaser or mortgagee of property. Obviously, this form of insurance is possible only where proper public records are kept. The title insurance policy promises to protect the insured, that is, anyone who owns real estate or who has advanced money on real estate, against loss or damage, subject to the limitations of the policy. The insurance company agrees to hold itself responsible for any defect in the title to any particular property or for any liens or encumbrances on the property which were unknown at the time the policy was issued. The policy covers only defects which existed at the time of the issuing of the policy, and is not intended to cover any defects which may arise after the policy is issued. In this respect it differs from other forms of insurance. Other insurance policies provide protection for contingencies which arise after the issuance of the policy, whereas a title insurance policy provides protection only for defects which existed at the time of issuance.

Lawyers should not strenuously oppose the introduction of title insurance. They have no liking for liability which the greatest possible care on their own parts might not save them from incurring. The fact is that a large amount of the business which comes to title companies is obtained from attorneys acting for their clients.

**Cost of Searching Title to Property.**—One of the reasons for the development of title insurance was the expense required in connection with the passing of title every time real property was sold. The transaction usually involved the retaining of an attorney by each purchaser and the retaining of an attorney by each seller. The purchaser's attorney searched the title to the property, without obtaining the benefits of previous examinations of title. The idea arose that corporations should be organized which would make a search of property, charge a fee for the search, and guarantee the validity of the title. When this fee was charged, any new purchaser or mortgagee of the property could rely upon the previous searches that had been made, and this obviated the necessity of making a complete search each time the property was sold, provided the same title insurance company was used. Naturally, title insurance is given only where the insurance company is reasonably certain that the title is good. In title insurance the fees are used mainly for expenses which are costly because of the professional and scientific work required. The portion used for losses is small.

**Facilitation of Quick Search of Title.**—Title insurance has been developed not only because of the fear of invalid titles, but also because of the ability of title companies to make quick searches and thus to hasten the fulfilment of transactions of real estate. In order to accomplish this quick search, the title insurance companies make a copy of all real estate records in the various localities in which they operate, whether or not they have insured the property. This is a very large and extensive undertaking. It involves the copying of all instruments affecting the land from the very first record to the latest record found in the county clerk's office. The instruments that are copied are not filed by the names of the parties mentioned in the instrument. The practice of the company is to open an account for each piece of land. In this account entry is made for every instrument which affects the title. This record, once prepared, is kept up to date by posting to the proper account a copy of every new instrument recorded. Although the development of such a record plan is very costly, once the plan has been developed the cost is justified by the ease with which the company can make an examination of the title. The development of this method eliminated the old plan of making a complete search of every instrument each time a piece of property was transferred. The fact is that the title insurance company has practically a complete abstract of the title which can be placed immediately in the hands of the legal department of the company, to be examined and passed upon and verified wherever necessary. As the business of the company increases, the material is gradually changed from a collection of unexamined instruments into a group of examined and approved

instruments. The value of the information gathered by the title insurance company is perfectly obvious. Anyone who intends to purchase property or who wishes to lend money on property can know the past history of the property before completing his transaction. He can determine who owned the land, what was the previous selling price, and what loans were made on the property.

**Making Real Estate Salable.**—The chief advantage of the record plan, however, lies in making the real property quickly salable provided that there were no serious defects when the title policy was issued. Everybody recognizes that real estate is an investment, but many shun this form of investment on account of the difficulties involved. In the past, many banks refused to accept property as collateral. This may be due to the problem of the validity of title and the delay and expense involved in determining the ownership of property. Title insurance, however, will help eliminate this difficulty.

Title insurance policies are not uniform throughout the country, and may be issued both to owners of property and mortgagees. One form protects the insured not only against defect of title but also against loss by reason of unmarketability. The analysis which follows is based on this form.

The title policy may be divided into four sections :

1. Insuring agreement.
2. Description schedule.
3. Exceptions and limitations.
4. Policy conditions.

**Insuring Agreement.**—The policy under consideration covers up to a designated amount losses occurring under the following conditions: (1) defect of title affecting the described premises or the insured's interest therein; (2) unmarketability of title by reason of liens or encumbrances existing at the date of the policy.

This coverage does not include, however, any loss occasioned by estates, interests, defects, objections, liens, and encumbrances specifically excluded in the sections of the policy devoted to exceptions, limitations, and conditions.

Any loss for which the company may be liable may be applied to the payment of any mortgage mentioned in the policy. In the event that the insured subsequently takes any mortgage, the title of which is insured or held by the company, settlement may be made in the same manner. Amounts so paid are deemed payments to the insured under the policy. In no event, however, will the aggregate liability of the company exceed the amount named in the policy.

**Description Schedule.**—The schedule describing the subject matter contains three subdivisions :

1. Estate or interest of insured in the premises. The interest may be that of owner in fee simple, of mortgagee, or of lessee.
2. Instrument through which title or interest is vested in the insured. The instrument may be a deed, will, mortgage, or lease.
3. Detailed description of the property covered by the policy.

**Exceptions and Limitations.**—The section devoted to exceptions and limitations lists those estates, interests, defects, objections to title, liens, charges, or encumbrances which affect the premises or interest but which the policy does not cover.

**Policy Conditions.**—This section describes the respective duties and rights of the insured and the company under the policy. The following are important conditions of the policy.

**INCIDENCE OF CLAIMS.**—The company does not become liable for claims until after one of the following occurrences :

1. Decree of a court of competent jurisdiction under which the insured is evicted from the premises or dispossessed of any interest in the premises.
2. Final determination by a court of competent jurisdiction upon a lien or encumbrance not excluded in the policy. To furnish grounds for recovery, the decision of the court must be adverse to the title as insured.
3. Rejection by the purchaser of title because of some defect or encumbrance not excepted in the policy. To bind the company, the insured must have contracted in good faith and in writing to sell the insured estate or interest. Furthermore, notice must be given to the company within a stipulated time of the rejection.

For a stipulated period after receiving notice of the vendee's rejection of title, the company may exercise one of two options. Upon presentation by the insured of adequate proof of loss, the company may elect to pay the actual damage sustained. Alternatively, the insurer may choose to defend or maintain actions or proceedings undertaken in courts of competent jurisdiction to determine the validity of the vendee's alleged objection to title. The suit or defense may be carried out by the company either in its own name or in that of the insured. In the event that the vendee's objection is sustained by the court, the company will pay the loss.

4. Where the company assumed liability under a policy covering the interest of the mortgagee, final determination by a court of com-

petent jurisdiction that a mortgage is invalid or subject to a prior lien.

5. Rejection of title by a proposed lender, where the insured has negotiated a loan secured by a mortgage on the estate or interest covered by the policy. Where there is no dispute of the facts, the company may consent to have the validity of title passed upon by a court of competent jurisdiction. Upon the decision of the court will rest the liability of the company, but in no event will the insurer be obligated to make a loan as a substitute for one rejected.
6. Final judgment by a court of competent jurisdiction against the insured or his heirs, executors, administrators, or successors on any covenant or warranty contained in an instrument used by the insured to transfer title, because of some defect of title or encumbrance not excepted by the policy.

**SUBSEQUENT DEFECT.**—As mentioned previously, defects and encumbrances arising after the date of the policy are not covered. Taxes and assessments, for example, which have not become a lien up to the date of the policy or which are payable in future installments, are excluded. Furthermore, no approval of any transfer of the policy is deemed to cover any such defects, encumbrances, taxes, or assessments.

**PERSONAL AND OTHER PROPERTY EXCLUDED.**—The policy does not cover the title to personal property under any condition. This rule applies whether the personal property is attached to or used in any connection with the premises.

In addition, the policy excludes title or rights of the insured to any premises beyond the limits set in the policy. Streets, roads, avenues, and lanes on which the premises abut are similarly excluded unless specifically expressed as being insured. This exclusion does not apply, however, to ordinary rights of light, air, and access belonging to owners of abutting properties.

Furthermore, the policy does not cover buildings and other erections which fail to comply with state or municipal laws, regulations, and ordinances. Finally, the company is not liable for any losses arising from the exercise or attempted enforcement of governmental police power over the insured property.

**WRITTEN NOTICE.**—When any action or proceeding is begun or when any paper is served with the object of attacking the validity of a title or of raising any material question which might subject the company to liability, the insured is required to notify the company in writing at once.

If notice is not given to the company within a stipulated period after service of the first summons or other process, the policy is voided. An assignee for value, provided that the company has evidenced its approval

of the assignment on the policy, is not subject to this provision, when his failure to give notice resulted from his ignorance of service having been made. Furthermore the company is not released from liability by failure to give notice unless this violation has prejudiced or will prejudice the interests of the company.

**DEFENSE OF SUITS.**—The company agrees to defend the insured in all actions or proceedings provided the claims of title or encumbrances existed prior to the date of the policy. This priority in time of claim is necessary to provide coverage under the policy. The company also has the right to maintain or defend any action in connection with the title insured or in regard to any covenant relating to the title. All such suits are undertaken or defended at the company's own expense.

**APPRAISAL.**—In case of liability, the company has the right to demand a valuation of the insured estate or interest. The valuation is determined by two arbitrators, one chosen by the company and the other by the insured. If they cannot agree, the arbitrators choose an umpire to determine the valuation.

When appraisers are thus employed no right of action accrues against the company until a stipulated period after it has been served with notice of the valuation and with a conveyance or transfer of the insured's estate or interest to a purchaser to be named by the company. The company is released from liability if during that period a purchaser is found for the estate or interest at the specified price, less the amount of encumbrance exempted from the policy.

**PAYMENT OF LOSS.**—Once the company's liability is definitely fixed, the loss is paid within a stipulated period. The company has the option either of settling the claim or paying the policy in full. Liability to any collateral holder of the policy may in no case exceed the pecuniary interest in the policy. Payments made under the policy reduce the amount of insurance.

In addition to the actual loss, the company will pay all costs of litigation carried on by the insurer on behalf of the insured. The company is in no case, however, liable for more than the amount stated in the policy. Furthermore, fees for counsel employed by the insured are not a liability of the company.

No payment or settlement may be demanded without submitting the policy for endorsement to the effect that the payment has been made. In the event the policy is lost, satisfactory indemnity must be provided for the company.

**COINSURANCE CLAUSE.**—In case the premises are subsequently improved or altered at a cost exceeding 20% of the amount insured, the

company is liable only for that proportion of the loss as 120% of the amount of the policy bears to the total value of the property after improvement.

**APPORTIONMENT PROVISION.**—When the premises are divisible into separate independent parcels, the loss on any one parcel is computed and settled on a prorata basis. In these computations the amount of the policy is treated as if divided pro rata in accordance with the values of separate parcels as of the date the policy was issued. Improvements made after the date of the policy are not governed by this provision.

The coinsurance clause and apportionment provision do not apply to a mortgagee policy.

**SUBROGATION.**—After a claim has been settled under the policy, the company is entitled to all the rights and remedies which the insured would have had if the policy had not been in force. Accordingly, the insured is required to cause all such rights to be transferred to the company as well as to permit the use of his name in defense or recovery proceedings.

If the payment does not cover the insured's loss, the company is subrogated to his rights in the same proportion as the payment bears to the amount of loss not covered by the payment.

**POLICY TRANSFERS.**—Transfer of title insurance policies is generally prohibited. A policy held by the owner of a mortgage or other encumbrance, however, may be transferred to an assignee of the mortgage. Other transfers may be permitted by special written agreement and endorsement on the policy by an officer of the company.

In the absence of permission which the company may deny at its option, all interests in the policy cease except as to damages accrued.

**Premium Charge.**—The insurance fee for a title policy is paid when the policy is issued. There is no further premium charge so long as the policy is held by the one to whom it was issued. In other words, this practice is different from the usual type of policy where the premium is renewed at definite periods, at which a new fee must be paid. The fees charged depend upon the following factors: (1) the type of policy, that is, owner's policy or mortgagee's policy; (2) the locality in which the policy is issued; (3) the amount which must be the purchase price in case of purchase of property, or the amount of the mortgage that is issued if the policy covers the mortgagee's interest.

In case of a loan, title companies are usually unwilling to issue policies for an amount lower than the loan. The reason is that if a loss is sustained the companies prefer to take over the property, obtaining

complete interest and paying the full amount. An effort is made to cure any defect in the title and then sell the property.

In addition to insurance fees, the insurance company charges the policyholder for drawing and recording papers and making such searches and surveys as may be required.

If a policy has once been issued and the property is subsequently sold or the mortgage transferred, a new policy may be obtained covering the interest of the new owner or new mortgagee at a reduced rate.

### QUESTIONS AND PROBLEMS

1. (a) State the purpose of title insurance.  
(b) Under what circumstances may a title prove defective even after a careful search of the records has been made?  
(c) In what respect does title insurance differ from other forms of insurance?  
(d) Explain the attitude of the legal profession toward title insurance.
2. (a) Enumerate the coverages afforded by title insurance.  
(b) What are the divisions of a title policy?
3. (a) *M* purchased a \$15,000 title insurance policy on June 15, 1951. Discuss the company's liability under the following conditions:
  - (1) Subsequently *M* sold his property to *Q*. Since an examination of the county records showed that *M*'s title was defective, *M* was able to obtain only \$5,000 for the property.
  - (2) Two years after *M* obtained title, he discovered that there was a \$500 lien which had been placed on the property July 1, 1951, for improvements by the city.
  - (3) State the company's liability in the case just presented if the lien had been placed on the property on December 1, 1950.
  - (4) *Q* claimed that he was the owner of the property and commenced suit to remove *M* from the property. *M* notified the insurance company. *M* demanded that his attorney should represent him in the action.
  - (5) At the time *M* purchased the property from *Q*, title to the furniture in the building was also transferred to *M*. The value of this furniture was \$1,000. Subsequently, *C* proved that he was the owner of the furniture.
  - (6) After title passed, *M* spent \$3,000 to improve the property. On November 15, 1951, action was commenced by *Q* to dispossess *M* from the property. The court granted title to *Q*.
  - (7) State the company's liability in the case just presented if *M* spent \$6,000 on the improvement.

- (8) Six months later the city building authorities condemned the building and ordered its removal because the construction was in violation of the city regulations.
- (b) *M* purchased a \$15,000 title insurance policy on June 15, 1951. On June 30, 1951, *M* sold his property to *Q* and assigned his title policy to *Q* with the consent of the company. On June 20, 1951, *M* was served with notice of dispossess by *R*, who claimed title to the property. *Q* did not receive the notice from *M* until August 1, 1951. *Q* immediately sent the papers to the title insurance company.
- (c) Explain the subrogation provision in title insurance policies.
- (d) What is meant by the apportionment provision in title insurance policies?
4. (a) *F* purchased a \$15,000 title insurance policy on June 15, 1951. *F* sold his property to *L* and requested the insurance company to transfer the title policy to *L*. The company refused to do so. Discuss the rights of *L*.
- (b) What factors determine the premium charge for title insurance?

## CHAPTER 14

### CREDIT INSURANCE

**Reasons for Credit Insurance.**—Many merchants realize the need for fire insurance protection but few are aware of the need for credit protection, although the annual failure losses in the United States exceed the annual fire losses.

Credit losses are generally due to business failures. Business failures are bound to occur, and the merchant extending credit should consider the possibilities of protection against unusual losses which affect his profits and perhaps his solvency. The procedure that the merchant usually follows is to add a sufficient amount to the cost of production to provide for business failures which may occur during the year. This procedure would be satisfactory if there were no unexpectedly heavy losses. Such losses occur very often at times of business depression when the merchant needs his money. Credit insurance is designed to meet this situation.

If credit insurance is purchased, the merchant can grant credit without fear of unusual loss. The assumption must not be made that because a merchant has a credit insurance policy he can extend credit without using proper judgment. Credit insurance helps the activities of the credit man, as the business is protected against an unusual amount of loss.

**Development of Credit Insurance.**—The companies originally wrote many limitations in their policies, and in addition they lacked proper information upon which to make satisfactory rates. After the passage of the National Bankruptcy Act, the credit insurance companies broadened the definition of insolvency in their policies. This broader definition brought many more claims under the scope of the policy and provided an incentive for the purchase of credit insurance.

**Method of Writing Credit Insurance.**—The writing of credit insurance depends upon the following factors: (1) line of business of the applicant; (2) coverage; (3) past loss experience of the applicant for insurance; (4) type of policy.

**LINE OF BUSINESS OF THE APPLICANT.**—The credit insurance manual is based on the study of the past loss experience suffered by thou-

sands of wholesale merchants carrying credit insurance. The insurance companies writing this form of insurance have made a special study of the relationship between the yearly amounts of sales in various lines of business and the losses suffered by each line of business. As a result of the analysis of this information, all lines of business have been divided into various classes, depending on credit loss costs.

**COVERAGE.**—Under some policy forms, the insurance companies limit the amount of their liability for losses suffered through the insolvency of the customers of the insured. This limitation is based upon the credit ratings of the various customers, as given by the mercantile agencies. The ratings may be found in the rating books issued by the mercantile agencies, such as Dun & Bradstreet. The insurance companies have prepared a table which gives the maximum amount recoverable by the insured on a single debtor's account. This amount depends directly upon the rating of the customer, as shown by the rating in the agency

TABLE 22. CAPITAL AND CREDIT RATINGS OF DUN & BRADSTREET, INC.  
Key to Ratings

Estimated Pecuniary Strength			General Credit			
			High	Good	Fair	Lt'd
Aa	Over	\$1,000,000 .....	A1	1	1½	2
A +	Over	750,000 .....	A1	1	1½	2
A	500,000 to	750,000 .....	A1	1	1½	2
B +	300,000 to	500,000 .....	1	1½	2	2½
B	200,000 to	300,000 .....	1	1½	2	2½
C +	125,000 to	200,000 .....	1	1½	2	2½
C	75,000 to	125,000 .....	1½	2	2½	3
D +	50,000 to	75,000 .....	1½	2	2½	3
D	35,000 to	50,000 .....	1½	2	2½	3
E	20,000 to	35,000 .....	2	2½	3	3½
F	10,000 to	20,000 .....	2½	3	3½	4
G	5,000 to	10,000 .....	—	3	3½	4
H	3,000 to	5,000 .....	—	3	3½	4
J	2,000 to	3,000 .....	—	3	3½	4
K	1,000 to	2,000 .....	—	3	3½	4
L	500 to	1,000 .....	—	—	3½	4
M	Less than 500	.....	—	—	3½	4
Blank	.....	.....	1	2	3	4

The heavy line separates credit risks into preferred and inferior classes.

chosen by the policyholder. Table 22 illustrates the capital and credit ratings of business firms in the Dun & Bradstreet agency.

In some cases the credit agencies cannot make any estimate of the wealth of the business firm. A credit rating is then issued without any capital rating. Such ratings are called blank capital ratings.

The heavy line in the table separates credit risks into preferred and inferior classes. A policy covering only preferred ratings is known as a "regular policy." When both preferred and inferior ratings are covered, the policy is known as a "full key coverage."

Note must be made that customers with the same capital rating may have different credit ratings. For example, a customer with a rating of C 1½, estimated capital \$75,000 to \$125,000, is considered to be a better risk than a customer rated C 2½, estimated capital \$75,000 to \$125,000. The division by the insurance companies of credit risk into preferred and inferior is based upon experience.

The amount of credit that may be protected by a credit insurance policy on the basis of Dun & Bradstreet ratings is shown in Table 23 for preferred credit ratings.

TABLE 23. COVERAGE LIMITS—DUN & BRADSTREET, INC.

First Credit Rating		Maximum Limit	Second Credit Rating		Maximum Limit	Third Credit Rating		Maximum Limit
Aa	A1	\$500,000	Aa	1	\$100,000	Aa	1½	\$10,000
A+	A1	300,000	A+	1	75,000	A+	1½	10,000
A	A1	200,000	A	1	50,000	A	1½	10,000
B+	1	100,000	B+	1½	40,000	B+	2	10,000
B	1	75,000	B	1½	30,000	B	2	10,000
C+	1	50,000	C+	1½	25,000	C+	2	10,000
C	1½	30,000	C	2	15,000	C	2½	7,500
D+	1½	25,000	D+	2	12,500	D+	2½	6,250
D	1½	20,000	D	2	10,000	D	2½	5,000
E	2	10,000	E	2½	5,000	E	3	2,500
F	2½	5,000	F	3	3,000	F	3½	1,500
G	3	2,500	G	3½	1,500			
H	3	1,500	H	3½	750			
J	3	1,000	J	3½	500			
K	3	500						
Blank 1		100,000	Blank 2		25,000	Blank 3		1,500

PAST LOSS EXPERIENCE.—Past experience of the insured will indicate what percentage of sales he has suffered in bad debt losses during previous years. This loss may be expected to continue year after year. The insured protects himself against such loss by taking that amount

into consideration when determining the cost of the article to be sold. The primary purpose of the credit insurance policy is to protect, not against this amount of loss, but against undue loss which has not been included in the cost of sales.

A loss is collectible under the policy only if the total losses covered are in excess of the usual yearly loss, known as the "primary" loss of the insured. To assist in determining the primary loss of an insured, insurance companies have prepared tables showing the percentage of losses to be expected on annual sales of varying amounts for policies in various lines of business.

The primary loss which is charged the insured depends upon two factors. These are (1) manual primary loss, as stated in Table 24; (2) experience rating. This latter depends upon the experience in reference to sales and loss for each of the last three years and fraction of years to date of the application, or the applicant's entire business experience will be considered if he has been in business for a shorter period.

The primary loss may be reduced by merit rating depending upon the experience rating, i. e., if the loss experience is lower than the primary manual loss as shown by Table 24. On the other hand, there may be

TABLE 24. LOSS ON SALES  
Regular Policies

Class	Sales	Primary Loss	Sales	Primary Loss	Sales	Primary Loss
1	\$100,000	\$580	\$1,000,000	\$1,900	\$10,000,000	\$ 8,500
2	100,000	610	1,000,000	2,200	10,000,000	9,000
3	100,000	690	1,000,000	2,800	10,000,000	11,500
4	100,000	770	1,000,000	3,300	10,000,000	14,000
5	100,000	885	1,000,000	3,800	10,000,000	16,100

Full Key Coverage Policies

1	\$100,000	\$1,050	\$1,000,000	\$3,420	\$10,000,000	\$11,800
2	100,000	1,260	1,000,000	4,104	10,000,000	14,200
3	100,000	1,512	1,000,000	4,920	10,000,000	17,000
4	100,000	1,814	1,000,000	5,900	10,000,000	20,800

an increase in the final ascertainment of the primary loss, depending upon the following factors: (1) business conditions in the applicant's sales territory; (2) character of trade sold by the applicant; (3) credit and collection methods employed by the applicant; (4) amount and conditions of outstanding accounts.

The amount of the primary loss will affect the company's liability for the various customers. Coverage may be obtained in excess of these amounts, shown as the maximum limit in Table 23, for the respective

credit ratings by specifically naming the debtors. Furthermore, when coverage over \$50,000 on a debtor with first credit rating or over \$25,000 on a debtor with second credit rating is desired, the debtor must be specifically named in the policy, regardless of the amount of primary loss.

**Classification of Policies.**—Credit insurance policies may be classified :

1. Coverage of policies depending upon agency rating. Collection service of accounts is rendered by the company on these policies, which are designated as follows : CF, N, and H.
2. Coverage depending upon agency rating, but on which the company renders no collection service. This policy is designated LF.
3. Policies in which coverage is not based on agency rating. Collection service is rendered under these forms, which are respectively designated as L and CR.
4. Policies under which the company renders checking and collection service on individual accounts. These policies are designated by the following letters : ID, XS, and ACR.

**The CF Policy.**—The company is liable under the CF form for losses resulting from the insolvency of the policyholder's debtors up to a stipulated sum designated as the "amount of the policy." These losses consist of the unpaid purchase price of the insured's bona fide sales of merchandise shipped during the specified shipment period and actually delivered in the regular course of business.

Debtors include individuals, firms, copartnerships, and corporations in the United States of America, territories thereof, and the Dominion of Canada. In each case the loss must have been covered, filed, and proven in accordance with the provisions and conditions of the policy.

Under the CF policy, a debtor is deemed insolvent when :

1. A debtor absconds.
2. A sole debtor dies.
3. A sole debtor is adjudged insane.
4. A debtor sells or transfers his stock in trade in bulk.
5. A receiver is appointed for a debtor.
6. A writ of attachment or of execution is levied on a debtor's stock in trade and stock sold thereunder or the writ returned unsatisfied.
7. A debtor offers a general compromise to his creditors for less than his indebtedness.
8. There is a taking of possession under a chattel mortgage given by a debtor on his stock in trade.
9. There is a recording of or taking possession under an assignment or deed of trust made by a debtor for the benefit of his creditors.
10. There is an assignment to or taking over by a committee appointed by a majority in number and amount of the creditors.
11. A proceeding is instituted to adjudge a debtor bankrupt.
12. A proceeding for the relief of a debtor is instituted in a court of bankruptcy.

**PROVISION FOR PAST-DUE ACCOUNTS.**—The policyholder, during the term of the policy, must file with the company for collection the account against each debtor after it has become due and payable, but before it has become more than 90 days past due under the original terms of sale. Any account, or so much of an account so filed, is treated under the policy as though the debtor were insolvent at the time the account was filed with the company. Every such account so filed must include all indebtedness then due and payable.

**POLICY PERIOD.**—The term of a policy can be for a period not shorter than one year, but it may be for a period longer than one year. The policy itself can be written for an additional premium for a term of one year and the period beyond one year can be provided by the extension of a policy term rider. Such additional premium is not used to increase the limits of coverage or the policy amount.

In no event can the extended time for filing claims under this form of policy run beyond the longest terms of sale, including dating, plus 90 days from the expiration of the policy shipment period. The date thus ascertained is the date of termination of the policy term.

**GOVERNING RATING.**—The latest published rating book is used to determine a debtor's rating for coverage on shipments made from the first day of the month named by the book through the last day of the month preceding the month named by the next rating book. When, however, the agency changes a rating by written report compiled and issued to the insured during the effective period of the latest book, the governing rating as determined from the report applies on all shipments made after the insured receives the written report from the agency or written notice from the company. The same rule applies when the written report is issued within 60 days before the period covered by the rating book.

When the debtor's obligations at the date of insolvency are for shipments made under different governing ratings, gross coverage will not exceed the largest amount set opposite any one of the debtor's governing ratings. In case a change of rating reduces the limit of coverage applicable to a debtor, shipments made subsequently are not covered, while the debtor owes the insured an amount equal to or exceeding the amount set opposite the latest rating. If, however, shipments are made under the latest rating, and the amount owed is less than the amount set opposite the latest rating, the latter will be the limit of coverage.

A shipment to a debtor whose name at the date of shipment does not appear in the credit agency book of ratings is covered in the latest report of the agency on the debtor compiled within four months previous to the shipment. If no report has been compiled within four months previ-

ous to the shipment, then the shipment is governed by the rating of the agency on the debtor compiled within four months after the shipment.

**COINSURANCE CLAUSE AND LIABILITY LIMIT.**—From the aggregate amount of net losses, as ascertained in the policy, 10% is deducted for coinsurance.

From the remainder is deducted the primary loss usually calculated at a percentage of total gross sales made during the shipment period, less returns and allowances. This primary loss deduction may not be less than a specifically designated amount. The remainder, not exceeding the amount of the policy and less any amount owing the company, is the sum payable by the company.

**EXCLUSIONS.**—The company is not liable for losses occurring under the following circumstances :

1. Prior to the payment of the policy deposit premium, even though the policy has been delivered.
2. After the termination of the policy.
3. When the loss is not a valid and legally sustainable indebtedness of the debtor or his estate.
4. When the debtor does not have, at the date of shipment, a governing rating for which coverage is specified in the "Table of Ratings and Coverage."
5. If the terms of sale are longer than a specified number of days, including dating.
6. For any amount sold under a "Style Name" not mentioned in the policy.
7. If any account is not filed in accordance with conditions governing past-due accounts.
8. If the policyholder makes any agreement which would at the date of filing interfere with the company's exercise of judgment upon any proposal of the debtor to his creditors. Policyholder must obtain company's permission before he can properly act on his own behalf.

**NOTIFICATION AND FILING OF CLAIMS.**—The policyholder must, within a stipulated period after acquiring knowledge of a debtor's insolvency as defined in the policy, and within the term of the policy, file notification of claim with the company on the form prescribed and furnished by the company, and forthwith place the whole account against such debtor with the company for attention and collection. Every notification of claim filed under the condition for past-due accounts must be accompanied with an itemized statement showing fully the dates of shipment, the terms of sale, the true condition of the account, together with all notes or other papers evidencing the same, and any guarantees, securities, or other documents relating thereto. All notification of claim must

be received by the company within the time specified, in its designated office; claim is then handled upon the terms provided in the policy.

The policyholder must, upon request, promptly furnish all proofs or any other information or assistance necessary for the proper handling of any account in any proceeding.

The filing of any notification of claim by the policyholder under the policy constitutes authority for the company to place the account for collection with any attorney selected by the company. Any claim withdrawn by the policyholder may not be refiled under any policy issued by the company.

The receipt, retention, or handling by the company of any claim filed by the policyholder under the policy constitutes neither a waiver of any of the terms, conditions, or stipulations of the policy, nor an acceptance of such claims as are covered by this or any other policy.

**COLLECTION OF CLAIMS AND SCHEDULE OF CHARGES.**—The company will assume responsibility for all money collected by its agents and correspondents and will promptly remit all amounts due the policyholder as collections are effected.

When a claim is disputed in whole or in part, or when the company considers it necessary for the purpose of enforcing collection from a debtor, guarantor, surety, or endorser, or participating in any proceeding involving the estate of a debtor, guarantor, surety, or endorser, the policyholder must authorize suit or other proceedings and promptly advance and pay suit fees, costs, and expense required in connection therewith. Failure to do so is considered a withdrawal of the stated claim by the policyholder.

When litigation or unusual proceedings have been authorized by the policyholder, the amount charged by the attorney as a reasonable noncontingent fee must be paid by the policyholder, in addition to which the policyholder must pay the stipulated service charge on collections effected, but such charge will be limited to the amount that the noncontingent fee is less than 50% of the amount collected.

When any return of merchandise or direct payment is made to the policyholder after filing of claim with the company, or when a claim is withdrawn by the policyholder, the costs and charges as provided for must be paid to the company by the policyholder, the same as if collection had been effected through the company.

The company has the right, when it deems it necessary or expedient to endorse notes, checks, or drafts in behalf or in the name of the policyholder and to deposit these instruments or their proceeds in the account or to the credit of the company.

Except as otherwise provided, the indemnified must pay to the company, on each claim filed, the following charges on collections effected :

1. **Free service.** No service charge can be made on any collection effected within 15 days after receipt of an account by the company nor can any service charge be made on any collection effected on any undisputed or unlitigated account insofar as covered, after a debtor has become insolvent, as defined in the policy.
2. Any uncovered portion of a claim filed with the company for collection, or any claim not included in subdivision (1) of this provision, is subject to the following collection commissions if effected through the services of an attorney: 18% commission on the first \$300 or less, 15% commission on the excess of \$300 to \$500, and 10% on the excess of \$500.

A minimum commission of \$9.00 is charged, except on collections under \$18, where the commission is 50%. In localities where the charges are established by law or by bar rules, whether they be higher or lower, such charges will govern. One half of the above charge is made if collection is effected without the services of an attorney.

The remittance to the policyholder, with or without charge, of any amount collected on an account filed, and the acceptance by the policyholder, will not be construed as a determination of coverage nor as a waiver either by the company or the policyholder of any of the terms, conditions, or stipulations of the policy.

**FINAL STATEMENT OF CLAIM.**—If any claim for loss is made under the policy, a final statement of claim, duly sworn to, must be made by the indemnified after the termination of the policy, upon blank forms which are furnished by the company upon application. This final statement of claim must be received by the company at its executive office within 30 days after the termination of the policy. No claim for loss may be made or allowed under the policy unless it has been set forth in the final statement of claim.

**TIME AND METHOD OF ADJUSTMENT.**—The company agrees to make the adjustment within a period not to exceed 60 days after the receipt of the final statement of claim, and the amount then ascertained to be due the policyholder under the policy at once becomes payable.

To ascertain net loss in any adjustment under the policy, there is deducted from each gross loss covered, filed, and proven, the following:

1. All amounts collected from the debtor or obtained from other source.
2. The invoiced price of goods returned, reclaimed, or replevined when such goods are in the undisputed possession of the policyholder.
3. Any discount to which the debtor would be entitled at the time of adjustment.
4. Any amount mutually agreed upon as thereafter obtainable.
5. Any legally sustainable set-off that the debtor may have against the insured.

If no mutually satisfactory agreement is reached as to the amount thereafter obtainable on any loss, the company will allow the unpaid part of such loss so far as covered.

If the entire indebtedness, of every kind, of a debtor to the policyholder at the date of insolvency is in excess of the gross amount covered by the policy, then the above-mentioned deductions are made pro rata, that is, in the ratio which the gross amount covered bears to the whole of such indebtedness. After these deductions are made from each gross loss covered, filed, and proven, the remainder is the net loss.

From the aggregate amount of the net covered, filed, and proven losses thus ascertained, there is usually deducted 10% as coinsurance, and from the balance, the primary loss. The remainder (not exceeding the amount of the policy), less any amount owing to the company, is the amount payable to the policyholder.

When any covered and filed claim of the policyholder against a debtor is disputed in whole or in part, the claim cannot be allowed in any adjustment under the policy until finally determined to be a valid and legally sustainable indebtedness against the debtor or the debtor's estate. At that time such a claim, so far as covered under the policy, is adjusted and the amount due the policyholder will become payable.

The policyholder must assign to the company all claims allowed in adjustment, together with all securities and guarantees relating thereto, except those claims upon which the amount thereafter obtainable was mutually agreed upon, and he must warrant the legal validity of the indebtedness for the amount of such claims, and upon demand must reimburse the company for any amount paid by the company to the policyholder on any indebtedness which is not allowed against the debtor or the debtor's estate, together with the expense of any action thereon. The company will handle for the joint benefit of the policyholder and the company, as their interests appear, any claim assigned to the company which has not been covered in full by the policy.

**DISPOSAL OF ASSIGNED CLAIMS.**—On assigned claims the company agrees promptly to remit to the insured the following after deduction of collection charges and expenses :

1. Net amount realized on any indebtedness in which the company has no interest.
2. Net amount realized on any indebtedness in excess of the gross amount covered.
3. That portion of the net amount realized in any indebtedness equal to the percentage of coinsurance borne by the insured.

If, after these deductions and remittances, the remaining net amounts realized by the company in the aggregate exceed the total amount paid to

the policyholder in adjustment, the company agrees promptly to remit to the policyholder that excess and all net amounts thereafter realized. However, having determined any amount due the policyholder under this condition, the company has the right to retain that amount, or any part thereof, to apply on any indebtedness due the company from the policyholder. Upon the written request of the policyholder the company will then reassign such claims as were assigned to it in adjustment.

**COLLATERAL BENEFITS.**—The policy is not assignable, but the company agrees to provide upon written request from the policyholder that any loss, ascertained to be payable as provided in the condition on time for and method of adjustment clause, shall be paid to any bank, trust company, or other payee designated by and for the account of the insured.

**TERMINATION OF THE POLICY.**—If, during the term of the policy, the policyholder becomes insolvent, or ceases to continue the business in the manner described in the policy, or goes into liquidation, or seeks a general extension from his creditors, or, being a partnership, is dissolved, the policy terminates as to coverage of subsequent shipments. Temporary interruption, however, by fire, flood, tornado, or by strike, or by the death, withdrawal, or admission of a member of a partnership of more than two members does not so terminate the policy.

**N Policy.**—The provisions of the N credit insurance policy are similar to those of the CF policy except for several essential provisions. These provisions may be summarized as follows:

1. The CF policy provides for compulsory filing of past-due accounts, whereas the N provides for optional filing of past-due accounts.
2. The CF policy covers all sales made during the year, although the insolvency may occur after the year, limited only by the longest terms of sale plus 90 days. The N policy covers insolvency only up to the date of the expiration of the policy, which is written for a period of one year.
3. The CF policy covers all sales of the year and therefore has no connection with any other policy. However, since the N policy covers only losses which occur during the year, if a renewal policy is purchased, the companies will attach a back sales rider.
4. The definition of insolvency in the N policy is the same as in the CF policy except that there is no limitation of time to 90 days after the account has become past due under the original terms of sale before a debtor may become insolvent by the terms of the policy.

**BACK SALES RIDER.**—This rider provides that the renewal policy will cover shipments made within the prior policy period provided that any account which is filed and is more than 90 days past due on the renewal date will be subject to an additional coinsurance charge of 10%. The

company does not charge an additional premium or increase the normal loss charge for the attachment of this rider. The company may nevertheless subject the rider to any requirements necessitated by unusual conditions of shipment made during a previous policy period.

**H Policy.**—The H credit insurance policy is also similar to the CF policy. Unlike the latter, however, the H form does not provide for compulsory filing, but if an account is not filed within 90 days, when the adjustment of loss is made, a penalty of  $\frac{1}{5}\%$  for each day that the account was filed after 90 days past due will be added to the charge.

**LF Policy.**—This form is like the N policy except that there is no provision for service in connection with past-due or insolvent accounts. The insured must handle all insolvencies and he must prove all claims. The insolvency and the amount must be established during the policy term. Nevertheless, when a loss occurs, the insured must notify the company within 20 days after acquiring knowledge of a debtor's insolvency, as defined in the policy and within its term.

**L Policy.**—Customers are covered by the L credit insurance policy without consideration of their ratings. Like the N form, the L policy provides for optional filing of past-due accounts, and only for losses occurring during the policy period.

Under the L form the aggregate amount of net loss is subject to a deduction of 25% as coinsurance. Another feature of this policy is the imposition of an additional premium charge based on sales in excess of the volume estimated in advance.

**CR Policy.**—A merchant may not have his own credit department. In order to check prospective purchasers of merchandise, he may enter into an arrangement with one of the recognized agencies to obtain data for the purpose of extending credit to his customer. The agency will advise concerning shipment of any order. Under such circumstances the business man can purchase a CR policy.

This policy is similar to the N policy. However, since the amount of credit given to a customer does not depend upon credit rating but upon the advice of the credit agency, the policy provides coverage on any loss on any account against a debtor only if within 30 days prior to the date of shipment the policyholder has received from the approved credit agency its latest written credit recommendation covering the shipments to be made.

When the credit recommendation is for less than the total amount of any shipment, the company's liability is limited to the amount recommended. Furthermore, the company is bound only when the shipment is made in exact conformity with all the conditions set forth in the specific credit recommendation.

**EXCLUSIONS.**—When the insured receives notice of revocation of the credit recommendation before the date of any shipment, the company ceases to be liable for any loss on that shipment.

The policy also excludes losses on accounts sold on credit terms longer than the prescribed number of days, including the dating. If shipments are made to debtors who owe the insured for any prior covered indebtedness which is more than 30 days overdue, the policy likewise excludes losses on these shipments until the earlier covered indebtedness has been paid.

**ID Policy.**—This policy is issued to cover the insured against loss on a named individual account. Like the CF form, the policy covers all sales made during the shipment period except that past-due accounts must be filed within 60 days. Liability limits are based upon the credit rating of the customer. As the policy covers only a single debtor, there is no need for a primary loss provision. Nevertheless, the loss is subject to coinsurance.

**CANCELLATION.**—An important difference between the CF policy and the ID policy is that the latter may be canceled either by the company or by the insured. This cancellation, however, does not affect shipments made prior to the effective date of cancellation.

**XS Policy.**—Like the ID form, the XS credit insurance policy covers the insured against loss on one named individual account. The policy, however, is further designed to meet the need of business men who wish to be protected against losses in excess of amounts which they could reasonably expect to collect if the named debtor became insolvent. Hence the XS form differs from the ID form in that the liability limits are not based upon the customer's credit rating.

**ADJUSTMENT OF LOSS.**—The XS policy is subject neither to coinsurance nor to primary loss deductions as such. From the proven loss is deducted the primary loss which the insured has agreed to assume. The balance, less any items owing to the company, is the ultimate loss payable to the insured.

**ADVANCES AGAINST EXCESS LOSS.**—Between the time of the debtor's becoming insolvent and ascertainment of the ultimate excess loss, the insured is entitled to an advance not exceeding 80% of the probable ultimate excess loss.

Since the ultimate excess loss, at any time prior to the final liquidation and distribution of the debtor's estate, is indeterminate, the amount is arrived at by mutual agreement between the company and the policyholder. If an advance is made against an account not covered in full, the remit-

tance is made in the ratio which the uncovered portion bears to the whole of such indebtedness.

**DUTIES OF THE INSURED.**—When an advance is made by the company, the insured must assign to the company the whole account against the debtor, together with all securities and guarantees relating to the account. He must further warrant the legal validity of the debt and pay 6% interest, compounded semiannually, on the advance. The interest period continues until the adjustment has been made, or until the company has been reimbursed for the advance. On the latter date the company will immediately turn over to the insured any amount received in excess of the advance that was made to the insured by the company.

In addition to interest, the insured must bear all collection expenses incurred in settling the account. This expense is deducted from the remittance made to the insured by the company.

**ACR Policy.**—This policy is similar to the ID policy excepting that: (1) any number of debtors may be covered under the policy; (2) the premium charged is based on the insurance company's rating of the customer; (3) a separate charge is made for each shipment, whereas under the ID policy a flat premium charge is made for the year, regardless of the amount of turnover.

An examination of this policy will indicate that the insurance company is offering coverage which is comparable to business performed by factors.

**CERTIFICATE OF APPROVAL.**—The insured must submit an application on a form furnished by the company for each debtor to be covered by the policy. The company will then issue either a certificate of approval or a notice of disapproval. No charge is made for a disapproval notice.

The certificate of approval states the amount of approved coverage, the maximum terms of sale, and the premium rate. Unless notice of cancellation is sent to the insured, the certificate remains in force until the expiration of the sales period. Cancellation becomes effective for future shipments on the date of receipt by the insured.

**COVERAGE OF INVOICES.**—The policy covers losses on shipments to approved debtors, provided that the insured has filed copies of invoices covering such shipments at the company's designated office within ten days after shipment. Invoices are covered in the order in which copies are filed at the company's office until they amount in the aggregate to the limit specified in the certificate of approval. Invoices filed in excess of the specified limit are subject to coverage to the extent that prior covered

invoices are wholly or partly paid within 30 days after maturity under the original terms of sale.

The company is not liable for loss of shipments when made to debtors while any prior covered indebtedness which is 30 days past due remains unpaid. Losses on accounts not filed in accordance with the condition for past-due accounts are likewise excluded.

**Credit Insurance Policy Endorsements.**—Among the special riders provided to meet the special needs of policyholders, the following may be mentioned :

1. Specially processed merchandise rider.
2. Construed date of shipment rider.
3. Interim adjustment of claims rider.
4. Antedating rider.
5. Guarantor rider.
6. Excluded sales rider.
7. Extraordinary debtor rider.

**SPECIALLY PROCESSED MERCHANDISE RIDER.**—Credit insurance covers only actual sales which are shipped and delivered. If the insured has taken an order from a customer and the goods are to be manufactured for the special use of the particular customer, the insured may suffer a serious loss even though the goods are not shipped prior to the customer's insolvency. The specially processed merchandise rider protects the insured against this contingency.

**CONSTRUED DATE OF SHIPMENT RIDER.**—Where ratings are employed, the various policies provide that the rating at the date of shipment governs the liability of the company. In consideration of an increased total basic premium, however, the policy may be endorsed to provide that the rating in effect at the date of acceptance of the order governs. The goods must be shipped, however, within a stipulated period after the acceptance of the order.

**INTERIM ADJUSTMENT OF CLAIMS RIDER.**—Insurance companies are not obligated to make any adjustment until the end of the policy period. In consideration of an additional premium, however, a rider for insolvent accounts or insolvent and past-due accounts may be attached to the policy providing for payment of losses prior to the expiration of the policy. At the end of the policy period an accounting is made and, if any excess has been paid to the insured, he must refund this amount to the company.

**ANTEDATING RIDER.**—Sometimes for convenience it is desirable to date the policy from the first day of the month in which the application

was accepted. This can be accomplished by means of the antedating rider. The policy does not, however, cover accounts which have failed prior to the date of the application, or which are overdue under original term of sale, or for which ratings are reduced by the mercantile agency prior to the payment of the premium.

**GUARANTOR RIDER.**—The insured may sell to a certain customer only if the account is guaranteed by a third party. Upon request, insurance companies will attach a guarantor rider which provides that the rating of the guarantor shall govern, instead of that of the debtor. To prove a loss under this policy, however, the customer as well as the guarantor must become insolvent. There is no premium charge made for this rider.

**EXCLUDED SALES RIDER.**—An insured may desire to exclude certain accounts from one of the policies in which the primary loss is based on sales. This can be accomplished by the excluded sales rider. This rider provides that certain named accounts are excluded from any consideration under the terms of the policy. If any accounts that were excluded become insolvent, the loss, therefore, cannot be proved under the policy. In computing premium no charge is made for these excluded accounts.

**EXTRAORDINARY DEBTOR RIDER.**—An insured may desire coverage for an account which is otherwise not covered by the policy. By endorsement the company will grant coverage for specified named debtors who would not be covered by the policy, subject to a stipulated maximum amount for all liabilities so assumed or to a net loss ascertained according to the method of adjustment described in the policy. In addition, the endorsement provides for cancellation of the endorsement by the company or by the policyholder.

**Premium Charges.**—Premium charges for CF, N, H, and LF policies are based upon the following factors: (1) the number of credit ratings covered, (2) the amount of maximum liability for each credit rating covered, (3) the sales volume, (4) the amount of the policy, (5) the coverage for extraordinary debtors, (6) the terms of sale, (7) and the use of riders such as the "specially processed merchandise rider" and the "interim adjustment rider."

The premium charge for L and CR policies depends upon (1) the amount of the policy, (2) sales, and (3) the terms of sale.

The premium charge for the ID policy depends upon (1) the credit rating of the debtor and (2) the terms of sale.

The premium rates of the XS policy depends upon (1) the percentage of liability which the insured assumes and (2) the terms of sale.

The premium charge for the ACR policy depends upon (1) the financial setup of each of the debtors, and his pay habits, and (2) the terms of sale.

**PREMIUM ADJUSTMENTS.**—For policies containing a primary loss provision, premium charges may be varied by increasing or reducing the primary loss. An insured desiring a reduced premium may obtain the reduction if he agrees to an increased primary loss. He may be charged, for example, one-third of the basic premium if he agrees to have the primary loss equal to 110% of the sum of the following items: (1) two-thirds of the basic premium, (2) primary loss.

To illustrate, assume a basic premium of \$1,100 and \$1,000 primary loss, the premium charge will be \$700 and the adjusted primary loss will be \$1,540 as shown by the following computation:

Basic premium.....	\$1,100
Primary loss.....	<u>1,000</u>
Combined total.....	\$2,100
<i>Premium rate:</i>	
One-third of \$2,100.....	<u>700</u>
<i>Basic primary loss:</i>	
Two-thirds of \$2,100.....	\$1,400
Plus 10%.....	<u>140</u>
Adjusted primary loss.....	<u>\$1,540</u>

**Underwriting Considerations.**—Before issuing credit insurance policies, insurance companies consider among others the following factors:

1. Personnel of the applicant.
2. Ability of the credit man and the organization of the credit department.
3. Line of business.
4. General business conditions.
5. Specific business conditions.
6. Classes of customers.
7. Territories covered.
8. Terms of sale.
9. Limits of coverage.
10. Past experience.

### QUESTIONS AND PROBLEMS

1. (a) Discuss the need for credit insurance.  
(b) On what essential factors does the writing of credit insurance depend?

- (c) *X* had a rating of C 2 in the Dun & Bradstreet agency, and *Y* had a rating of D 3 in the same agency. How are these ratings designated for the purpose of credit insurance?
- (d) What is the maximum coverage for customers with the C 2 ratings?
- (e) *X* desired a policy covering preferred ratings, and *Y* desired a policy covering preferred and inferior ratings. What are the names of the respective policies?
2. (a) *M*'s business is in Class 1, according to the credit insurance manual. His annual sales were \$1,000,000. What is his primary loss, according to the manual, for a full key coverage policy?
- (b) What factors may affect the primary loss favorably or unfavorably?
- (c) *M*'s primary loss was \$1,000. He desired to cover customers with a rating of C 1½ for \$15,000, C 2 for \$10,000, and F 2½ for \$4,000. Explain the possibility of obtaining these coverages.
- (d) *M*'s primary loss was \$10,000. He desired to cover customers with a rating of B 1 for \$75,000, C 2 for \$30,000, and D 3 for \$30,000. Explain the possibility of obtaining these coverages.
3. On June 15 *R* purchased a CF credit insurance policy. Discuss the company's liability under the following conditions:
- (a) *R* sold \$1,000 worth of merchandise to *Q*. *Q* refused to pay the bill, however, on the ground that he had never received the goods.
- (b) *R* sold \$1,500 worth of merchandise to *N* on June 20. The bill was not paid one month later, when due. On December 10, *R* filed his claim with the insurance company for the amount of the bill.
- (c) *R* sold \$6,000 worth of goods to *N*, who had a credit rating of E 2. The coverage limit for the credit rating E 2 was \$6,000. Subsequent to the sale to *N*, the latter's credit rating was reduced to E 2½. Later *N* failed.
- (d) *R* sold goods to *N*, whose credit rating was E 2½. The amount of the sale was \$1,000. However, *N*'s rating was not specified in the table of ratings and coverage in the policy. *N* failed.
- (e) The amount covered for customers with rating of D 1½ was \$10,000. At the time the policy was issued, the rating of *N*, a customer, was D 1½. *R* took an order from *N* for \$5,000. Prior to shipping the goods, *R* was notified that *N*'s rating was changed to E 2½. After the goods were delivered, *N* failed.
- (f) *R* shipped \$2,500 worth of goods to *N*. At the time of the shipment, there was no credit rating in the agency book for *N*. Two months thereafter, *R* received notice that *N*'s credit rating was G 3. The limit for this credit rating was \$2,000.
- (g) *R* sold goods to *N*. When the bill became due, *N* was unable to pay this debt, as well as all other debts that he owed. *R* agreed

with *N* that he would not sue the latter for the debt, and that he would give *N* six months to pay.

- (h) *R*'s primary loss was \$2,000. At the end of the policy period, the provable losses were \$5,000.
  - (i) *R* also operated as the Big Bargain Company. Under the latter name he sold \$500 worth of merchandise to *N*. *N* failed.
  - (j) The company collected a claim of \$200 after an involved suit, and charged the insured with a collection commission of 18% and an attorney fee of \$100. The insured objected to these charges.
  - (k) *R* made an agreement with his bank that if any loss was due under the policy it would be payable to his bank. *R* notified the insurance company concerning this agreement. The amount due to *R* under the policy was \$5,000.
  - (l) Suppose the insured was the *A, B, C Company*, a three-member partnership. On June 30 the company sold an interest in the business to *D*. After that time the business was conducted as the *A, B, C, D Company*. On July 10 the company sold \$1,500 worth of merchandise to *E* on terms of 2/10 net 60. On August 1 *E* filed a petition in bankruptcy.
  - (m) In the case just presented, what if *A* was an individual proprietor and transferred his business to the *A Corporation* in which major interests were held by *B* and *C*?
4. (a) *F* purchased a CF policy on January 10, 1951, and *G* purchased an N policy on January 10, 1951. *F* sold *D* \$500 worth of merchandise on March 10, 2/10 net 60. *G* sold *D* \$500 worth of merchandise on March 10, 2/10 net 60. On the due date, *D* did not pay his bill. On August 10, *D* failed. What are *F*'s and *G*'s rights?
- (b) *F* purchased a CF policy on January 10, 1950, and *G* purchased an N policy on January 10, 1950. *F* sold *E* \$500 worth of merchandise on December 10, 1950, 2/10 net 60; *G* sold *E* \$500 worth of merchandise on December 10, 1950, 2/10 net 60. *E* failed on January 20, 1951. What are *F*'s and *G*'s rights?
- (c) State the main provisions of and the charge made for the back sales rider.
5. (a) *P* purchased an H policy on June 1. On the 10th of July he sold *B* \$1,500 worth of merchandise on terms of 2/30. *B* failed to pay the bill on August 10, and *P* filed a claim on August 25. State the company's liability.
- (b) What is the company's liability in the case just presented if *P* did not file the claim until 120 days after the date the bill became due?
6. *Q* purchased an LF policy on June 10, 1951. State the company's liability under the following circumstances:

- (a) On July 2 *Q* sold *B* \$1,500 worth of merchandise on terms of 2/10 net 60. *B* did not pay the bill on the due date, and *Q* notified the company on September 10.
  - (b) On June 1, 1951, *Q* sold \$1,000 worth of merchandise to *M*, 2/60. On July 15, 1951, *M* filed a petition in bankruptcy.
7. *R* purchased an L credit insurance policy on June 15, 1947. Discuss the company's liability under the following circumstances:
- (a) On June 30 *R* sold *B* \$1,500 worth of merchandise on 30-day terms. On the due date *B* did not remit. On August 3 *R* filed the account with the insurance company. *B* did not have any credit rating.
  - (b) On May 1, 1947, *R* sold *B* \$200 worth of merchandise on 30-day terms. On the due date *B* did not remit. On June 20, 1947, *B* filed a petition in bankruptcy.
8. *M* purchased a CR policy on June 1. What is the liability of the insurance company under the following conditions:
- (a) As *M* did not have his own credit department, he used the *R Credit Agency* to furnish him with advice on prospective customers. The use of this agency was approved by the insurance company. On June 15 *M* was advised by the credit agency that he could extend credit to *B* for \$1,000, subject to *M*'s usual terms of sale of 60 days. On August 2 *M* sold *B* \$800 worth of merchandise on 60-day terms. On August 10 *B* filed a petition in bankruptcy.
  - (b) *M* was advised by the approved credit agency that he could extend credit to *B* for \$1,000, subject to the usual terms of sale of net 30 days. *M* sold merchandise to *B* for \$500 on June 20. On June 30 *B* filed a petition in bankruptcy.
  - (c) What if *M* extended credit to *B* on terms of 60 days in the case just presented?
  - (d) On June 15 *M* was advised that he could extend \$1,000 worth of credit on the usual terms of sale to *B*. On June 20 *M* sold merchandise to *B* for \$500 on terms of 30 days. On the due date *B* did not remit. On July 22 *M* sold *B* merchandise for \$300, 30 days net. On July 30 *B* filed a petition in bankruptcy.
9. (a) *T* purchased an ID credit insurance policy on June 15, covering his customer *B*. On July 10 *T* sold merchandise to *B* for \$1,000 on credit terms of 30 days. On the due date *B* did not remit. On December 15 *T* filed a claim with the insurance company. What amount must the insurance company pay *T*?
- (b) *T* purchased an ID credit insurance policy on June 15, 1950, covering his customer, *B*. On June 1, 1951, *T* sold \$1,500 worth of merchandise to *B* on 30-day terms. On June 20, 1951, *B* filed a petition of bankruptcy. Explain the amount of provable claim under *T*'s policy.
  - (c) *T* purchased a CF policy on June 1, 1950. *Z* purchased an ID policy on the same day. On May 1, 1951, the company desired to

cancel *T*'s policy and *Z*'s policy. Summarize the rights of *T* and *Z*.

10. (a) On June 1 *P* purchased an XS policy covering his customer, *B*. The policy provided that the company would be liable for any amount of loss in excess of \$5,000 suffered by *P* as a result of extending credit to *B*. On June 10 *P* sold *B* \$12,000 worth of merchandise. On June 20 *B* filed a petition in bankruptcy. *B* did not have any credit rating when *P* sold the goods to *B*. Calculate the amount payable by the company under *P*'s policy if the bankrupt had no assets.
- (b) Suppose, in the above problem, that the bankrupt had assets, and the company agreed that the amount of loss that would be suffered by *P* would be \$11,000. *P* demanded immediate payment of any excess loss payable under the policy. Discuss the company's liability.
- (c) State the duties of the insured when an advance is made by the company under an XS credit insurance policy.
11. (a) Compare the ACR policy and the ID policy with respect to premium rates and number of debtors covered.
- (b) Explain how debtors are approved under the ACR credit insurance policy.
- (c) Explain in detail how invoices are covered under the ACR credit insurance policy.
- (d) *N* obtained an ACR policy on June 1. Discuss the company's liability under the following conditions:
  - (1) *N* obtained approval on June 15 to extend \$5,000 credit to *B* on 30-day credit terms. On June 20 *N* shipped *B* \$1,000 worth of merchandise. He sent a duplicate of the bill to the insurance company on June 29. On July 30 *B* filed a petition in bankruptcy.
  - (2) What if *N* sent the company a duplicate copy of the bill on August 10 for the shipment just mentioned?
  - (3) On June 10 *N* obtained a certificate of approval for \$5,000 on sales to *B* on 60-day credit terms. On June 12 *N* shipped *B* \$4,500 worth of merchandise on these credit terms. The bill was not paid on the due date. On August 15 *N* shipped *B* \$1,000 worth of merchandise on the same credit terms. On August 30 *B* filed a petition in bankruptcy.
- (e) *N* requested a certificate of approval for \$1,000 for *B*. The company sent a notice of nonapproval. What charge is made for this notice?
12. (a) *X* purchased a CF policy. He accepted an order for \$1,500 worth of merchandise from *M*. These goods were to be especially manufactured to meet the requirements of *M*. *M*'s credit rating was

C 1½, and the coverage limit was \$5,000. While the goods were being manufactured, *M* filed a petition in bankruptcy. *X* sold the goods which he had manufactured for \$600. Analyze the company's liability under *X*'s policy.

- (b) On June 1 *X* purchased an N credit insurance policy. The policy was written subject to a construed date of shipment rider. *X* obtained an order from *M* for \$5,000 on June 10, at which time *M*'s credit rating was C 2 and the coverage limit under the policy was \$5,000. On June 30 *X* was advised by the credit agency that *M*'s rating was reduced to D 1½. The coverage limit in the policy on D 1½ was \$3,000. On September 15 *X* shipped the order to *M*. On November 20 *M* filed a petition in bankruptcy. What is the company's liability under *X*'s policy?
- (c) *X* obtained a CF policy on June 20. On that day *X* sold *M* \$5,000 worth of merchandise, for which *X* would be covered by the policy. On June 30 *M* filed a petition in bankruptcy. On July 10 *X* requested the insurance company to make an adjustment with him for the amount of the provable claim. Explain his rights under an interim adjustment of claims rider.
- (d) *X* signed an application for a credit insurance policy on June 10. In accordance with his request that the effective date be June 1, an antedating rider was attached to *X*'s policy. On June 2 *X* had sold to *M* merchandise for \$500. On June 5 *M* filed a petition in bankruptcy. State the company's liability under *X*'s policy.
- (e) *X* obtained an N policy on June 15. On June 30 *X* sold *M* \$2,000 worth of merchandise on 60 days credit terms. As *M* did not have any credit rating, *C* guaranteed the account. *C*'s credit rating was sufficient to cover \$2,000 credit if the goods had been sold direct to *C*. On the due date, *M*, though solvent, did not pay his bill. On September 4 *C* filed a petition in bankruptcy. Analyze the company's liability under *X*'s policy.
- (f) Discuss the purpose of the excluded sales rider.
13. (a) *F* purchased a CF policy subject to a primary loss of \$1,000. He desired to extend \$15,000 worth of credit to *B*. *B*'s credit rating was D 1½. Discuss the possibility of obtaining this insurance.
- (b) Explain the method for computing the premium for the CF credit insurance policy.
- (c) Upon what factors are premiums based for the following policy forms:
- |        |         |
|--------|---------|
| (1) N  | (5) CR  |
| (2) H  | (6) ID  |
| (3) LF | (7) XS  |
| (4) L  | (8) ACR |
14. How may the primary loss be used to vary the premium?
15. What underwriting factors determine the issuance of a credit insurance policy?

## CHAPTER 15

### FIDELITY AND SURETY BONDS

The act of guaranteeing the honesty of individuals or the performance of obligations by individuals or business firms or corporations has been carried on ever since the development of commerce. Originally the method was for a private individual to guarantee the performance of an obligation by another in favor of a third party.

**Parties to the Guarantee.**—Every guarantee involves three individuals: (1) the principal, that is, the one on account of whom the guarantee is given; (2) the surety or obligor or guarantor, that is, the one who guarantees payment in case of failure of performance of the obligation by the principal; and (3) the obligee, that is, the one to whom the surety is liable in case of misfeasance by the principal.

**Reason for Rise of Corporate Bonding.**—The practice of private individuals acting as guarantors led to considerable dissatisfaction. The obligee, the surety, and the principal found the practice undesirable. The reasons for this dissatisfaction were as follows:

1. *The obligee's dissatisfaction.* (a) Sometimes the financial standing of the surety decreased after the surety had guaranteed the bond. The guarantee was, therefore, inadequate. (b) If the surety conducted a business of guaranteeing for others, he could charge excessive rates as his charges were not subject to supervision by the state.
2. *The surety's dissatisfaction.* (a) If he was a friend of the principal, his obligation was given usually without charge. (b) In no case was he able or did he have the facilities to investigate the principal or to watch his actions.
3. *The principal's dissatisfaction.* (a) The principal was never certain that the guarantee of the obligation would continue to be valuable and satisfactory to the obligee. (b) If the surety could withdraw his guarantee and did so, the principal had to seek a new surety. (c) In many cases the principal had difficulty in finding a surety satisfactory to the obligee. (d) The principal was placed in the position of having to return favors to those who had gone bond for him if they had done so without charge.

The many causes of dissatisfaction assisted in the development of corporate suretyship. This branch of business is conducted usually by

organizations with large amounts of capital and surplus and is subject to the supervision of the state. These corporations do not possess the defects of the individual surety. A surety company must have an organization adequate for properly investigating and supervising the principal. The capital and surplus are of such size that the obligee cannot object to the financial standing of the surety. The business is supervised by state insurance departments and the rates are subject to regulation.

**Two Classes of Bonds.**—The business can be divided into two classes: fidelity bonds and surety bonds. The fidelity bond guarantees the honesty of an individual. The surety bond guarantees the performance of an undertaking, such as the construction of a building. Many of the bonds discussed in this chapter contain both the fidelity and the surety coverage.

**Collateral.**—Since the primary purpose of surety bonds is to serve in the extension of credit, surety companies seek to secure themselves against loss wherever possible. To accomplish this, in some cases the companies demand that the principal give them collateral as security. If a misfeasance occurs, the surety companies can then sell the collateral that has been deposited. Generally the following types of collateral are acceptable: (1) cash or certified check; (2) savings bank books properly assigned to the bonding company; (3) bonds listed on a stock exchange and made payable to the bearer; (4) stocks listed on a stock exchange.

The principal may desire to offer mortgages and real estate as security. These are not desirable forms of collateral. The reason is that the bonding companies can be certain only after a title search has been made that the principal has the interest he claims in the mortgage or real estate. The cost of the search is expensive and the time required may be long. Also, there is the problem of liquidation and marketability of the property in case the property is acquired by the surety company.

**Types of Bonds.**—The various types of fidelity and surety bonds may be classified and analyzed under the following major group headings:

- |   |                              |
|---|------------------------------|
| 1. Fidelity bonds.                      | 5. Contract bonds.           |
| 2. Forgery bonds.                       | 6. License and permit bonds. |
| 3. Bankers' and brokers' blanket bonds. | 7. Public official bonds.    |
| 4. Fraud bonds.                         | 8. Court (fiduciary) bonds.  |
|   | 9. Court (guarantee) bonds.  |

**Fidelity Bonds.**—Four types of fidelity bonds are available for fidelity risks: (a) the individual bond, (b) the name schedule bond, (c) the position schedule bond, and (d) the blanket bond.

Employers of cashiers, bookkeepers, clerks, and in fact of any employees who handle money or merchandise, often demand a fidelity bond to guarantee the honesty of the employee. The custom for employers to demand fidelity bonds has grown because the expense is small for the protection obtained. There are a number of employers who object to purchasing bonds, asserting that they know their employees are honest or that they have an auditing system which will prevent dishonesty. Examination of the daily paper will indicate that these arguments are woefully weak.

**Investigation of Employee's Record.**—In order to underwrite bonds properly, the bonding companies usually investigate both the employee's and employer's records. The employee's record is investigated principally concerning :

1. *Past employment record.* A detailed investigation is made of the past employment record of the employee to be bonded. The employee must be able to account completely for his entire past experience. Inability to do so is an indication that the risk is undesirable. Inquiry is made of previous employers, although failure upon their part to respond is but negative evidence and is not always considered unfavorable to the employee.
2. *Personal habits.* An investigation is made to ascertain whether the employee is addicted to immorality, excessive drinking or gambling, and what his standard of living is.

**Investigation of Employer's Record.**—The employer's record may be investigated concerning the following :

1. The class of business he conducts.
2. The type of auditing system he employs. The auditing system should be one in which the same employee does not both handle cash and make entries on the books of account. The frequency of verification and checkup is important to prevent continued defalcation.
3. Whether the employer rotates his employees, that is, changes their type of work. It is helpful to the surety companies if he does so.
4. Whether the employer gives his employees an annual vacation. This practice is also helpful to the surety companies. If the employee has been dishonest, the fact is often discovered by the new employee who takes his place during the vacation period.
5. Whether the employer pays his help a sufficient amount to meet the employee's standard of living.
6. Whether the employer pays his employees by salary or by commission.
7. Whether the employer permits his employee to sign checks without a countersignature.

8. Whether the employer requires branch managers to deposit funds frequently and permits withdrawals only by check of the employer.
9. Whether the employer knows of any previous defalcation by the employee.

**Reasons for Rejection.**—The bonding company judges each case separately. The usual reasons for rejection may be summarized as follows:

1. The employee has proved to be dishonest in previous employment.
2. The employee has shown an addiction to drink.
3. The employee is subject to excessive dissipation.
4. The employee has questionable associates.
5. The employee has a tendency for gambling.
6. The employee is heavily in debt or has been too extravagant in his spendings.
7. The employee has not given satisfactory references, or, if he has, adverse information has been received.
8. The company finds that it cannot verify information given by the employee as to his previous employment.

The surety company may be requested by the employer, the applicant, or the applicant's friend to disclose the reasons for refusal to issue a bond. Since this information is confidential, the reasons are rarely disclosed. The surety company should protect the one giving the information from the possibility of libel action.

The surety company is sometimes requested to issue a bond without the knowledge of the employee. This undesirable practice would remove one of the safeguards which the surety company demands. If the employee knows that he has been bonded, he understands that he is under a double watch, the watch of the employer and supervision of the surety company.

**Forms of Fidelity Bonds.**—In order to meet the requirements of various employers, the following are the usual forms of fidelity bonds available:

1. Individual
2. Name schedule.
3. Position.
4. Primary commercial blanket.
5. Blanket position bond.

**Individual Fidelity Bond.**—The company indemnifies the insured employer for an amount called the "penalty" against any direct loss of money or other personal property belonging to the insured or for which the insured is legally liable. The perils covered include larceny, embez-

zlement, forgery, misappropriation, wrongful abstraction, or any other dishonest or fraudulent act or acts which may be committed by the particular employee.

**LIMIT OF LIABILITY.**—The fidelity bond is continuous from its inception to its termination. The indemnity for separate periods, however, is not cumulative. For example, a bond written for \$5,000 was renewed for four periods, and then a loss amounting to \$15,000 was discovered. The company would be liable for only \$5,000. If, by endorsement, the indemnity for separate periods is changed to different amounts, the maximum liability of the company for all defaults cannot exceed the largest amount of indemnity in force during any period in which defaults have occurred. Furthermore, indemnity for one period is not available for defaults occurring within any other period.

In order to recover under the bond, the employer must comply with the following :

1. As soon as reasonably possible and, in any event, within a stipulated period, as for example, 15 days after discovery by the insured of any act or circumstance indicating a probable claim, written notice must be given to the company at its home office.
2. The loss which is the basis of any claim must have been discovered and reported within a stipulated period, frequently 15 months after the termination of the bond. This clause is designated as the cut-off clause.
3. Within a stipulated period, such as 90 days after discovery of the loss, an itemized sworn statement of the claim must be filed with the company.
4. The company must be permitted to make such investigation of the claim as it may deem appropriate, for which a reasonable time not exceeding 60 days must be allowed.
5. The insured must render every reasonable assistance in connection with the investigation.
6. Any legal proceedings to recover any claim must be instituted within a stipulated period, as, for example, 15 months after the first notice of the claim has been given.

**SALVAGE.**—The default may amount to more than the coverage under the bond. To illustrate, the bond might have been written for \$10,000 and the loss suffered by the employer might amount to \$15,000. Under such circumstances the bond first provides that any money or credits due the employee by the insured at the time of the discovery of any default, and any recoveries made prior to the time of payment by the company, will be deducted from the loss resulting from default. If the insured's net loss after making all of the deductions exceeds the amount paid by the company, the insured will, until fully reimbursed, be

entitled to all further recoveries on account of the loss, less the actual expense of making recoveries.

**TERMINATION OF THE BOND.**—If the insured becomes aware of any act of the bonded employee which is or could be made the basis of a claim under the bond, the bond will thereupon be terminated. In addition, the bond may be terminated by written notice from either of the parties to the other. Any notice from the company must be served upon the insured or sent by registered mail to the latest address of the insured known to the company, and the effective date will usually be at least 30 days after the date of service or 35 days after the posting of the registered notice, as the case may be.

**SUPERSEDED SURETYSHIP CLAUSE.**—If the employer should change his carrier, a loss may occur applicable to the bond with the former carrier for which he would have no protection if discovered after the cut-off period. For example, a loss might be discovered three years after the previous bond had been terminated. If the previous bond provided that loss must be discovered within 15 months after cancellation, the employer would have no protection against the loss under the former bond. In order to protect the employer, the company carrying the new bond will agree by a clause known as the "superseded suretyship clause" that the new bond will be construed to cover, subject to its terms, conditions, and limitations, any loss which was caused under the fidelity suretyship, which is discovered after the expiration of the cut-off period of the old bond or, if there is no cut-off period, after the bar of the statute of limitations. The loss must be discovered and reported to the present carrier before the expiration of the time limited in the bond of the present carrier for discovering and reporting the loss. In addition, the loss must have been recoverable under the former fidelity suretyship had the bond continued in force until the cancellation, expiration, or termination of the present bond, and the acts or defaults causing the loss were covered under the new bond at the time the new bond became effective.

The amount recoverable is limited to the amount recoverable on account of the employee had the former fidelity suretyship continued in force. In addition, the liability of the company under the new bond for loss under the present bond, and for loss under the prior bond, cannot exceed in the aggregate the amount carried under the new bond at the time the new bond became effective on the employee causing the loss.

**Name Fidelity Schedule Bond.**—The early practice of fidelity companies was to issue a separate bond on each employee. This method was cumbersome and expensive where numerous employees were engaged by

one firm. To reduce clerical work on the part of the obligee and operating expense on the part of the company, a name schedule bond may be obtained covering all employees. This bond is similar to the individual bond except that a schedule is provided listing the name, positions, and location of each insured employee, the limit of coverage on each, and the premium charge. The amount of insurance may be changed by endorsement or by specifying a different amount in a new schedule, which is attached on each anniversary date. By endorsement it is also possible to make changes between anniversary dates. If the amount of coverage on any employee is reduced, and loss on account of that employee is not reported to the company within a stipulated period, as, for example, 15 months after the effective date of the reduction, the reduced amount is the maximum liability.

**EXTENT OF COVERAGE.**—The name schedule bond covers employees named in the schedule in the same manner that the individual fidelity bond covers the named employee for acts covered, time limit for discovering and reporting loss and bringing suit after termination of the bond, and the insured's right to salvage.

During the period of the bond new employees may be engaged or new positions may be created. Under such circumstances any new employee, upon succeeding to a position vacated, for example, during the preceding 30 days by an employee who was then covered, will be covered automatically, usually for the first 30 days of his service for the same amount as his predecessor, but in no event for more than a stipulated amount, such as \$5,000. Any new employee, or any old employee not covered upon taking a newly created position, will be covered automatically, usually for the first 30 days of service for the smallest amount for which any employee in any position of that class is then covered. If there is no other position of that class of coverage, the company will be liable for the largest amount for which any employee is covered, but in no event for more than a stipulated amount as, for example, \$5,000. Recovery under this automatic coverage for default of any employee cannot be made unless the claim is filed with the company within 15 days after the expiration of the automatic period, that is, the 30-day period. There is no need for this clause if, during the 30-day period, the employee is covered by endorsement. This automatic provision, therefore, is designed to cover employees even though there is delay in adding their names to the schedule.

The coverage on any employee terminates (1) when the employment terminates, (2) when the employee is transferred, without the written consent of the company, from a location within to one not within the continental United States or the Dominion of Canada, (3) when the

insured becomes aware of any act of the employee which is or could be made the basis of a claim under the bond, (4) when the employee's name is omitted from the schedule attached as of any anniversary date, (5) when the coverage on the employee or the bond in its entirety is terminated by written notice from either the employer or the bonding company to the other. The notice from the company must be served upon the insured as in the individual fidelity bond. The provision for salvage follows the individual bond.

A very broad name schedule form that is available for preferred risks contains the following special clauses: (1) the bond covers loss due to any dishonest, fraudulent, or criminal acts; (2) there is (for example) 90 days' automatic coverage on an employee succeeding to a position vacated by a bonded employee for the same amount; (3) for a newly created identical position, the limit is the same amount as the smallest amount bonded in the same class; (4) if the new position is nonidentical with any positions, the limit provided is (for example) \$10,000; (5) the time limit to discover loss after termination of the bond is, for example, three years.

**RESTRICTED BOND.**—Certain classes of employees, such as rent collectors, are considered extra-hazardous. To insure these riskier groups, a restricted form is provided. Some features of the form, which may be written as either an individual bond or a schedule bond, may be summarized as follows:

1. Loss is restricted to larceny or embezzlement.
2. The time limit for discovering loss is six months after termination of the bond.
3. There is no automatic coverage for new employees under the schedule form.
4. Salvage must be divided between the insured and the company in proportion that the net loss borne by each bears to the total net loss.

**Position Fidelity Bond.**—The individual and schedule fidelity bonds are effective only when the name of the principal is stated in the bond or in a schedule attached to the bond. In many cases this is ineffective so far as the obligee is concerned. If the firm is large, it may be constantly taking on or promoting employees. There is a possibility that some of these employees may make defalcation before the surety company can be notified concerning their bonding. To eliminate this difficulty, a position fidelity bond is issued to cover any occupant of the positions covered by the bond. This bond coverage is similar to the individual schedule fidelity bonds.

The amount of coverage available for each position is the amount stated in the appropriate schedule or endorsement attached to the bond.

Any amount may be changed by endorsement or by naming a different amount in a new schedule attached as of any anniversary date of the bond. The coverage on each position is continuous from its inception to its termination, and the coverages for separate periods are not cumulative just as with other fidelity bonds. If the coverage on any position for separate periods is for different amounts, the maximum liability of the surety company for all defaults of any employee who may occupy that position cannot exceed the largest amount of coverage in force during any period within which defaults have occurred.

Coverage for one position is not available for defaults in any other position. An employee may occupy, at one time or at different times, two or more covered positions. Under such circumstances, the maximum liability of the underwriter for all defaults of that employee cannot exceed, in the aggregate, the largest amount of coverage on any position in which defaults of that employee have occurred. Although there may have been a payment of a loss due to the default of an occupant of a covered position, the full amount of coverage on that position will be available for defaults of any prior or subsequent occupant of the position.

If the amount of coverage on any position should be reduced, and if loss on account of any occupant of that position is not reported to the underwriter within a stipulated period, such as 15 months after the effective date of the reduction, the reduced amount is the maximum liability of the company.

Any newly created position will be covered automatically, for example, for the first 30 days for the smallest amount for which any position of that class is then covered, but limited to a specified amount, such as \$5,000. If there is no other position of the class that is bonded, the new position is covered for the largest amount for which any position is covered, but in no event for more than a stipulated amount, such as \$5,000. Recovery under temporary automatic coverage for defaults of any occupant of a position may not be made unless the claim is filed with the company within 15 days after the expiration of the 30-day period.

Similar to the individual fidelity bond, the position fidelity bond contains provisions referring to termination and time limit for discovering loss, recovering loss, bringing suit, employer's right to salvage, and superseded suretyship.

A broad position bond is also available for preferred risks. Important provisions of this bond are as follows: (1) The acts covered are any dishonest, fraudulent, or criminal act. (2) Automatic coverage is provided, for example for 90 days, on a newly created identical position for the same amount as the smallest amount in the class. (3) If the position is not identical with any other bonded position, the limit avail-

able is, for example, \$10,000. (4) The loss must be discovered within, for example, three years after the termination of the bond.

**Blanket Fidelity Bonds.**—The individual bond or the schedule bond covers specifically named individuals. The position bond covers various individuals in specified positions, without naming the individuals. The blanket fidelity bonds cover all bondable employees without naming the individuals or their positions.

Blanket fidelity bonds are available in the following two forms: (a) the primary commercial blanket bond and (b) the blanket position bond.

**Primary Commercial Blanket Bond or Blanket Honesty Insurance.**—Bondable employees are all natural persons in the regular service of the employer whom he has the right to govern and direct at all times in their employment. Their compensation may be in the form of salaries, wages, commissions, or any combination thereof. Corporate directors who are not officers, however, are not covered. Brokers, factors, commission merchants, consignees, contractors, and other agents or representatives of like nature are also excluded.

The bond provides protection against loss of money or other property, real or personal (including that part of any inventory shortage which the insured conclusively proves has been caused by the dishonesty of any employee or employees) belonging to the insured. Similarly property is also covered in which the insured has a pecuniary interest or for which the insured is legally liable, or which is held by the insured in any capacity whether the insured is legally liable therefor or not. The loss must be sustained by the insured through larceny, theft, embezzlement, forgery, misappropriation, wrongful abstraction, wilful misapplication, or other fraudulent or dishonest act or acts committed by any one or more of the employees acting directly or in collusion with others during the term of the bond. The loss must be discovered and reported to the company before the expiration of 12 months from the cancellation of the bond as to the employee or employees causing the loss, or from the cancellation of the bond as an entirety or from its cancellation or termination as an entirety in any other manner, whichever happens first.

If there is any increase or decrease in the number of employees during the term of the bond, no change is made in the premium charge. An additional premium is payable, however, if additional employees are taken into the regular service of the insured through merger or consolidation with some other concern. The additional premium on any increase in the number of employees covered is computed pro rata from the date of the merger or consolidation to the end of the current premium year.

The employer may consider the penalty of the bond inadequate for certain employees. Under such circumstances he may purchase additional coverage for such employees under a separate individual or scheduled fidelity bond. If the insured carries fidelity suretyship upon any of the individual employees, in case a loss is sustained through any fraudulent or dishonest act of such employee, the underwriter is liable under the bond for only so much of the loss as exceeds the amount of individual fidelity suretyship on the employee.

There may be a number of losses while the bond is in effect. Any sum paid in settlement of any loss on the bond is not deducted from the penalty of the bond. The full amount of the penalty is available for each loss which occurs at any time while the bond is in effect.

Although the bond is issued to cover against loss due to acts of employees, a loss may occur after the employee is no longer with the employer covered by the bond. Therefore the bond provides that employees whose duties are performed inside and outside the office or offices of the insured will be deemed to be continued within the coverage of the bond for a period of 30 days after the employee has ceased to be in the regular service of the insured.

The bond contains provisions as in other broad form fidelity bonds concerning salvage, cancellation as to employees and the bond in its entirety, notice to underwriter, proof of loss, and time limit for suit and superseded suretyship.

**Blanket Position Bond or Group Honesty Insurance.**—This bond is issued for a stipulated amount for the defalcation of any one employee. Employees are defined as in the commercial blanket bond.

The company will indemnify up to the specified amount for losses resulting from fraudulent or dishonest acts on the part of any employee of the insured. If, for example, the bond was written with a limit of \$2,500 and the employer had 60 employees, the potential liability of the company would be  $60 \times \$2,500$  or \$150,000.

In case a loss is alleged to have been caused by the fraud or dishonesty of one or more of the employees, and the insured is unable to designate the specific employee or employees causing the loss, the company is nevertheless liable. The evidence submitted, however, must reasonably establish that the loss resulted from the aggregate fraud or dishonesty of one or more of the employees. The liability of the company for any such loss cannot exceed the amount of indemnity carried on any one of the employees.

The loss is covered only if the act causing the loss is committed by an employee while the bond is in force as to the employee, and if such loss is discovered and reported to the underwriter not later than two years

after the cancellation of the bond as to such employee, or after the cancellation of the bond as an entirety, or its termination or cancellation as an entirety in any other manner, whichever happens first.

The blanket position bond contains provisions similar to the commercial blanket bond in reference to proof of loss, cancellation as to the bond in its entirety or as to any employee, salvage, merger or consolidation, 30-day coverage for former employees, and superseded suretyship.

**EXCESS INDEMNITY ENDORSEMENT.**—Since each employee under a blanket position bond is covered for the same amount up to the face amount of the bond, it may be necessary to cover employees in some positions for higher amounts. This may be done by the excess indemnity endorsement which states the positions to be insured, the location and the total number of employees in each position, and the amount of excess indemnity on each employee.

The endorsement contains the following provisions :

1. The amount of excess indemnity on the employees performing the duties of the specific positions (which are covered by the bond) is the amount set opposite the names of those positions respectively in the endorsement.
2. The liability of the company on account of any one employee in any one or more of such positions (in the original or in an increased or decreased amount) cannot exceed the largest single amount of indemnity on any one position occupied by the employee.
3. No excess losses are recoverable under the bond or endorsement unless caused by an employee who has been identified as having caused the loss.

**PENALTY—BLANKET BONDS.**—The minimum amount for which the commercial blanket bond can be issued is \$10,000, and in multiples of \$2,500 to \$25,000. Bonds in excess of \$25,000 may be written in multiples of \$5,000 without a maximum limit.

The position blanket bond may be written from \$2,500 to \$25,000 in multiples of \$2,500. Larger bonds may be written in multiples of \$5,000, subject to a maximum limit of \$100,000.

**PREMIUMS—BLANKET BONDS.**—In order to determine the premium that must be paid on a blanket bond, employees are divided into the following classes :

*Class A:* Executives, officials, employees who handle or have custody of moneys, securities, or merchandise as part of their regular duties.

*Class B:* Employees such as salesmen, messengers, stenographers, and porters, who do not handle or have custody of moneys, securities, or merchandise as a part of their regular duties.

*Class C: Wage earners, including factory workers, foremen, mechanics, and similar employees. These employees do not handle money in the course of their regular duties.*

A particular risk may have the benefit of experience rating if the annual premium amounts to \$150 or more. If an excess indemnity endorsement is attached to the bond, the additional premium is added to the blanket bond premium in order to determine the total premium.

**Consignee Bond.**—A manufacturer or jobber may send merchandise to a representative for sale. The employee may convert the goods to his own use and thereby cause financial loss. Protection against such loss is available through the consignee bond for a stipulated amount.

The provisions usually covered by the consignee bond are the following:

1. The company agrees to indemnify the obligee from and against any and all direct loss which the consignor sustains through the fraudulent conversion by the consignee of any property or of any money actually collected by the principal for the property distributed by the principal.
2. There is no liability for any default committed by the consignee unless the default is discovered prior to the expiration of a stipulated period as, for example, one year from the cancellation or termination of the bond, or from the date upon which the consignee, for any cause, ceases to store and distribute the property for the obligee, whichever happens first.
3. The surety will not be liable under the bond for more in the aggregate than the named penalty, regardless of the number of years the bond continues in force.
4. In case the principal is a corporation, the surety will be liable for loss only when the default resulting in loss is committed by the president or any vice president, the secretary or any assistant secretary, the treasurer or any assistant treasurer, or the general manager of the consignee.
5. The surety is not liable on account of any money or any property that may be applied by the obligee or the principal, or otherwise, to the payment to the consignor of any indebtedness of the principal or of any shortage of the principal originating prior to the effective date of the bond.
6. The obligee must not, without the written consent of the surety, ship or deliver any property to the principal after the discovery by the consignor, or, if the consignor is a corporation, by any officer or by the general manager, of any default on the part of the consignee which might be made the basis of a claim, or which would indicate that the consignee is unworthy of confidence.

7. The obligee and the surety will share in any recovery from any source made by either on account of any loss covered, in the proportion that the amount of the loss borne by each bears to the total amount of the loss. Simultaneously with the payment of the loss, the obligee must execute all instruments which the surety may require to secure its rights.
8. The consignor, or its authorized representative, must at intervals of not exceeding three months, actually check all property delivered to the consignee and audit the accounts of the consignee insofar as they pertain to the business of the consignor.
9. The obligee must notify the surety, by letter or telegram, of any fraudulent conversion or of any act on the part of the consignee that would indicate that the consignee is unworthy of confidence, immediately upon the discovery by the consignor, or, if the obligee is a corporation, by the general manager or any officer.
10. Within 90 days after discovery of any fraudulent conversion causing a loss, the obligee must file with the surety affirmative proof of loss, itemized and duly sworn to on the proof of loss form in use by the surety. In addition, if requested by the surety, the consignor must produce for examination all records of the obligee pertaining to the loss.
11. Any suit to recover against the surety on account of loss must be brought before the expiration of 12 months from the discovery of the defaults causing the loss.

**Forgery Bonds.**—The use of commercial instruments such as checks and notes has tempted employees and others to forge signatures and thereby obtain money unlawfully. This may cause a loss to the one whose signature has been forged or to a bank or an innocent third party. To protect against the hazard, forgery bonds were introduced, guaranteeing the reimbursement of loss caused by the forgery of the maker's name or payee's name as endorsed, or the raising or the altering of any negotiable paper which was supposed to have been issued by the insured. The increasing use of instruments, particularly the bank check, increases the danger and volume of forgery losses.

If a forged instrument is presented to a bank and is paid by the bank, it does not necessarily follow that the bank is liable for the loss. Facts may be adduced indicating that the forgery loss results from negligence on the part of the depositor. In order to determine the liability of the bank, a lawsuit is necessary, involving expenses and the possibility that a judgment may be rendered against the depositor.

A number of check-writing devices to prevent alteration have been introduced, such as machines for indenting typewritten words and figures on the checks. Special paper and acid-proof inks are commonly used. Despite these devices alteration continues, though an expert is required to effect the alteration.

Protection against losses by business concerns from forgery is achieved by the use of the depositors' forgery bond.

**Depositors' Forgery Bond.**—The depositors' forgery bond protects the insured against loss on account of his own outgoing instruments, such as checks.

**COVERAGE UNDER DEPOSITORS' FORGERY BOND.**—The insured is protected against loss resulting from forgery or alteration of checks, drafts, promissory notes, bills of exchange, and other written orders or promises to pay drawn by, on, or as a direction to the insured. Similar coverage applies when these instruments purport to have been drawn by, on, or at the order of an authorized representative of the insured.

Coverage also extends to checks and drafts drawn in the name of the insured, when payable to a fictitious payee and endorsed in the name of the fictitious payee. This is true whether or not this endorsement constitutes a forgery under the laws governing the transaction.

Furthermore, the company is liable for loss on any check or draft provided in a face-to-face transaction with the insured by an impersonator, drawn payable to the person impersonated and endorsed by anyone other than the latter. This is true, irrespective of the laws governing forgery.

The policy also covers loss of any pay-roll check, pay-roll draft, or pay-roll order made or drawn by the insured, payable to bearer as well as to a named payee and endorsed by anyone other than the named payee without authority from the payee, whether or not the endorsement is a forgery within the law of the place controlling the construction of the act.

At the present time many firms use facsimile signature methods for the signing of checks. This method is used to save time and is accomplished by the use of a machine containing the signature of the person authorized to sign the instruments. The policy provides that mechanically reproduced facsimile signatures are treated in the same way as hand-written signatures.

In addition to the insured, the company will indemnify any bank in which the insured carries a checking or savings account against forgery or alteration of instruments paid or cashed by the bank. Such losses are covered, however, only under the following conditions: (1) The insured is entitled to priority of payment over losses sustained by the bank. (2) The company's liability to the bank for such losses is deemed a part of, and not in addition to, the liability, as set forth in the depositors' section of the policy. (3) Losses, whether sustained by the insured or by the bank, are paid directly to the insured in his own name. In the event that the surety consents to the defense of any suit brought

against the insured or the bank on account of refusal to pay allegedly forged or altered instruments, any attorneys' fees, court costs, or similar legal expenses incurred and paid by the insured or the bank will be construed to be a loss under the bond, and the company's liability will be in addition to any other liability under the bond. A reduction in premium is available by eliminating protection for losses caused by officers and employees of the insured.

**EXCLUSIONS.**—The bond does not cover losses resulting from forgery or alteration of registered or coupon obligations purporting to have been issued by the insured, or any coupons attached or detached therefrom.

**INCOMING CHECK RIDER.**—By attaching this rider to a depositors' forgery bond, the surety is liable on account of forged or altered instruments purporting to have been made or drawn by an existing person, firm, corporation, or public body, received by the insured for personal property sold and delivered or services rendered. This liability is limited to 75% of the insured's interest in these instruments. The insured's interest is determined by the following: (1) the amount purporting to have been paid to the insured for personal property sold or services rendered; (2) the amount of cash delivered against such instruments over and above the amount paid for personal property or services.

**EXCLUSIONS.**—The rider does not cover losses resulting from forgery or alteration of any instrument received by the insured in purported payment for property sold and delivered on credit.

**SALVAGE PROVISION.**—If the insured or the bank suffers a loss in excess of the amount receivable under the depositors' forgery bond, any salvage, less collection expense, belongs to the insured or bank to the extent of the excess. The balance, if any, goes to the surety.

When the insured suffers a loss under the incoming check rider that may be attached to the bond, any salvage, less collection expense, is divided between the insured and surety in such proportion that the company's net loss after deducting salvage will be 75% of the total loss.

After the payment of the loss the insurance company will attempt to recover the amount so far as possible from other parties involved in the loss. The policy therefore provides that upon payment of any loss, the insured must execute and deliver any papers required by the company in its efforts to recover salvage and must cooperate with the company for that purpose.

The loss under a forged instrument may not be discovered immediately after the forgery. The losses covered by the bond must be discovered by the insured prior to the expiration of 12 months after the ter-

mination of the bond or its cancellation, whichever occurs first. In addition, several forgeries might occur after the bond was issued. The bond provides prospective and retrospective reinstatement as in fidelity bonds.

Additional provisions of the forgery bond are the following :

1. The bond is primary with respect to any loss covered by the bond and also covered by any fidelity insurance carried by the insured or forgery insurance carried by the bank. The bond is considered excess over any other insurance, security, or indemnity, applicable to any losses otherwise covered under this bond.
2. Under many policies covering loss of property, the amount of insurance is usually reduced and a premium must be paid to reinstate the policy to the original amount. Under a forgery bond that is similar to fidelity bonds, however, payment of loss under the bond does not reduce the liability of the company for other losses whenever sustained.
3. The bond is terminated (a) thirty days after written notice is served on the insured, (b) thirty-five days after mailing of notice to the insured, (c) immediately upon written request of the insured, (d) immediately upon the taking over of the insured by a receiver or other liquidator, or by the state or Federal officials, or (e) immediately upon the taking over of the insured by another institution.

#### **Comprehensive Dishonesty, Disappearance, and Destruction Policy.**

—As has been explained, separate policies can be obtained for the following coverages :

1. Dishonesty of employees.
2. Forgery.
3. Loss of money and securities outside the premises and from within the premises.
4. Loss of merchandise due to safe burglary.
5. Loss of merchandise due to robbery inside and outside the premises.
6. Loss of securities from safe-deposit boxes or within premises of the depository while the securities are temporarily outside of the safe-deposit boxes.

These various coverages can be written in one policy which is technically designated as the “3D policy” or the comprehensive dishonesty, disappearance, and destruction policy.

**Bankers’ and Brokers’ Blanket Bonds.**—Analysis of the various fidelity bonds previously discussed indicates that the company’s liability covers generally dishonest acts of employees. Banks, brokers, and similar financial institutions may desire coverage in a single instrument against contingencies to which their businesses are peculiarly subject, in addition to fidelity coverage. This need is met by various bankers’ and brokers’ blanket bonds.

A summary of important provisions found in some of the bankers' blanket bonds are as follows :

A. *Property covered.*

1. Money, securities, gold and other precious metals and articles made from such metals, jewelry, gems, precious and semiprecious stones.
2. Other valuable papers and documents and chattels which are not enumerated in the above description of property and for which the insured is legally liable. Coverage on such chattels applies for a period of 60 days after the insured bank becomes aware of its liability for their safekeeping. The coverage does not apply if separate insurance is effected by the insured for such chattels. In addition, the bond is an excess coverage if separate insurance has been effected on such chattels by others.

B. *Perils covered.*

1. Fidelity coverage.
  - (a) Loss of property, through any dishonest act.
  - (b) Any loss through any dishonest, fraudulent, or criminal act.
2. Coverage at premises. Loss due to any of the following:
  - (a) Robbery, burglary, larceny, theft, holdup, damage, or destruction.
  - (b) Misplacement, mysterious unexplainable disappearance.
  - (c) Loss of subscription and other privileges through misplacement of interim certificates, warrants, and similar instruments.
  - (d) False pretenses.

The premises covered include the following :

- (a) The insured's offices named in the bond. U. S. Treasury Department, Washington, D. C., U. S. Subtreasuries, U. S. Mints, U. S. Assay Offices.
  - (b) Recognized places of safe deposit, offices of any banking institutions or clearing houses, premises of any transfer or registration agents handling exchange, conversion, redemption, endorsement, registration or transfer of property in the usual course of business.
  - (c) Anywhere else except (a) while in any insured's office which is not covered by the bond, or (b) in the mail, or (c) with a carrier for hire other than an armored motor vehicle company.
3. Loss or damage to offices and equipment due to loss resulting from robbery, theft, or holdup, or vandalism and malicious mischief covering offices, furnishings, safes, vaults, and other fixtures and equipment owned by the insured, or if the insured is liable for the damage. Fire damage, however, is not included.
  4. Customer insurance. Loss of customer's property in possession of the customer through any of the hazards specified, while the property is on the insured's premises which are covered by bond.

5. Loss of property during the course of transit in custody of any person acting as messenger or in armored car due to any of the following:
  - (a) Robbery, larceny, theft, holdup, negligence of a transporting messenger.
  - (b) Misplacement, mysterious unexplainable disappearance, damage or destruction, loss of subscription privileges through misplacement of interim certificates, warrants, and similar instruments.
  - (c) Lost or otherwise made away with.
6. Forgery coverage. Loss due to accepting, cashing, paying checks, drafts, letters of credit, and various other instruments named in the bond which are forged, altered, or bear forged endorsements, or acting on certain written instructions, including telegraphic instructions when coded or uncoded, paying certain promissory notes, and also delivering specific property against forged receipts.
7. Securities coverage. Loss through having purchased or otherwise acquired, accepted, or received, sold, or delivered, or guaranteed in writing, or witnessed any signatures upon, or given any value, extended any credit, or assumed any liability on the faith of, or otherwise acted upon any securities, documents, or other written instruments which prove to have been counterfeited or forged as to the name of any maker, drawer, issuer, endorser, or raised or otherwise altered, or lost or stolen.
8. Loss sustained by the insured through paying or redeeming, or guaranteeing or witnessing any signature on any U.S. Savings Bonds (series A to E only) if the signature is forged or if the savings bond is counterfeited, forged, raised, or otherwise altered, lost, or stolen.
9. Loss through the receipt by the insured, in good faith, of any counterfeited or altered paper currencies or coin of the United States of America issued or purporting to have been issued by the United States of America or issued pursuant to a United States of America Statute for use as currency.

C. *Exclusions.* There is no liability for loss due to :

1. Voluntary delivery when the property is delivered by a bank employee, unless dishonesty of the employee is involved. This exclusion does not apply, however, to any loss included in the forgery clauses.
2. Riot and civil commotion, unless in transit and unless conditions are unknown to the bank. The exclusion does not apply if the loss occurs in the United States or Canada.
3. Hurricane, cyclone, tornado, earthquake, or similar disturbance of nature.
4. Military, naval, or usurped power, insurrection, unless in transit and unless the conditions are unknown to the bank.
5. Directors' acts, except an act of a director who is a salaried officer.

In addition there is no liability for loss of the following :

1. Tellers' shortages, unless misplacement coverage is included in the bond, and then shortages due to error are excluded. Shortage of normal amounts are considered due to error, unless the loss is due to acts such as dishonesty or theft.
  2. Loans, unless the dishonesty of an employee is involved or unless covered by the forgery and securities insuring clauses.
  3. Property not owned after three business days from receipt, unless the property is examined and a record is made or verified.
  4. Property in safe-deposit boxes unless lost through dishonesty of an employee and the insured is legally liable.
  5. Foreign exchange, that is, losses arising out of fluctuation in foreign exchange.
  6. Travelers' checks, that is, losses through cashing, paying, establishing credit, or giving value for forged travelers' checks.
- D. The bond contains the conditions found in other bonds providing for the following:
1. Automatic restoration to original amount for any loss during the policy period.
  2. Discovery period, that is, one year's time to discover the loss after the cancellation of the bond.
  3. The bond is written for an indefinite period and is continuous until terminated by the insured or the company.
  4. When a blanket bond supersedes individual or schedule bonds or another blanket bond, whether in the same or a different company, the succeeding bond, subject to its terms, assumes liability for loss due to acts which may have occurred while the prior bond was in force but which are not discovered until after the expiration of the discovery limitation of that bond.

**Investment Bankers' and Stockbrokers' Blanket Bonds.**—A bond similar to the bankers' blanket bond is also available for investment bankers, stockbrokers, bond and investment houses, finance companies (but not personal finance companies), dealers in mortgages and commercial paper, note brokers, clearing house associations, American agencies of foreign banks, and investment trusts.

Provisions found in some of the bonds are set out below :

1. Loss due to acts of employees includes the following :
  - (a) Loss of property through any dishonest act (except loss through fraudulent trading).
  - (b) Any loss through any dishonest, fraudulent, or criminal act (except loss through fraudulent trading).

However, coverage can be added to include loss due to fraudulent trading by an employee.

2. Loss of property through any of the following:
  - (a) Robbery, larceny, burglary, holdup, theft, damage, or destruction.
  - (b) Misplacement, mysterious unexplainable disappearance.
  - (c) Abstraction or removal from the possession, custody, or control of the insured.
  - (d) Misplacement of interim certificates and warrants, causing loss of subscription privileges while within premises as defined by the bond.
  - (e) Damage, except by fire, to vaults, equipment, and other similar property caused by burglary, holdup, or theft or vandalism or malicious mischief.
3. Transit. Loss during transportation while property is in the custody of a person acting as a messenger or in an armored car caused by any of the following:
  - (a) Robbery, larceny, theft, holdup, or negligence of a transporting messenger.
  - (b) Embezzlement, misappropriation, misplacement, mysterious unexplainable disappearance, being lost or otherwise made away with, damage, or destruction.
  - (c) Misplacement of interim certificates and warrants, causing loss of subscription privileges, while in transit.
4. Forgery coverage. Any loss through forgery or alteration of, on or in any bills of exchange, checks, drafts, acceptances, certificates of deposit, promissory notes or other written promises, orders or directions to pay sums certain in money, due bills, money orders, warrants, orders upon public treasuries, letters of credit, written instructions or advices from any customers, bankers, or brokers, withdrawal orders or receipts for the withdrawal of funds or property, or receipts or certificates of deposit for property and bearing the name of the insured as issuer, excluding, however, coupon and serial notes, bonds, scrip, debentures, and obligations of a similar nature, whether registered or unregistered, and coupons attached to or detached from such instruments.
5. Securities coverage. Similar to the coverage described for the bankers' blanket bond.

As in other bonds, there is provision for automatic reinstatement to the original amount of the bond.

**Fraud Bonds.**—This group of bonds is designed to protect retail merchants against forgery losses and other specified hazards subject to a limit for each hazard. These bonds contain coverages like the store-keeper's and office burglary and robbery policy. The various fraud

bonds are included in this chapter because the bonds provide fidelity coverage.

The various bonds will be considered under the following classifications: (1) single fraud bonds, (2) single merchants' protective bonds, and (3) crime protective bonds.

**Single Fraud Bond.**—One type of single fraud bond provides \$1,000 liability for the following coverages:

1. Larceny and embezzlement coverage indemnifies the insured for loss of money, merchandise, and personal property owned by the insured, occurring upon the premises, occasioned by larceny or embezzlement committed by any of the insured's employees identified by name as responsible for the loss, the aggregate liability for all losses not to exceed \$100.
2. Robbery within premises coverage indemnifies the insured for loss of money, merchandise, and personal property owned by the insured, occasioned by robbery from the insured, or from an employee, occurring upon the premises and while the premises are open for business. The aggregate liability for all such losses is limited to \$150.
3. Robbery outside premises coverage indemnifies the insured for loss of money, merchandise, and personal property owned by the insured, occasioned by robbery from the insured, or from any employee, while engaged in the ordinary course of the insured's business outside of the premises but within the United States or Canada. The aggregate liability for all such losses is limited to \$150.
4. Safe burglary coverage indemnifies the insured for loss of money, merchandise, and personal property owned by the insured, occasioned by felonious abstraction of such property from within a safe in the premises or while located elsewhere after removal by burglars, by anyone making felonious entry into the safe when its doors are duly closed and locked by at least one combination or time lock. The entry must have been made by actual force and violence, of which there are visible marks made by tools, electricity, explosives, gas or other chemicals upon the exterior of all of the doors if entry is made through such doors, or otherwise upon the exterior of the top, bottom, or walls of the safe.

Safe burglary coverage also includes any damage to the safe by forcible opening or attempted opening. The aggregate liability for safe burglary coverage is limited to \$150.

5. Counterfeit paper currency coverage indemnifies the insured for loss through the acceptance in good faith, in the regular course of business, by the insured or by an employee, of counterfeit United States paper currency. The liability for counterfeit United States paper currency is limited to \$50 in any one transaction, and in the aggregate cannot exceed \$100.

6. Kidnapping coverage indemnifies the insured for loss of money, merchandise, and personal property owned by the insured in the event that the insured, or an employee, while outside the premises and after the premises are closed for business, is compelled under threat of violence to return and admit others to the premises. The kidnapping coverage also applies when the insured or his employee is forced, while detained forcibly elsewhere, to furnish information for or means of gaining admittance to the premises. The surety is liable, provided the loss is occasioned by the stealing of such property from within the premises before being opened on the next succeeding business day for the regular transaction of business. The aggregate liability for kidnapping coverage is \$100.
7. Incoming check coverage indemnifies the insured for 50% of any loss through exchanging, in good faith, merchandise, service, or money for the following checks and drafts, which are not paid upon presentation:
  - (a) Any check drawn, or purporting to have been drawn, on a bank.
  - (b) Any draft drawn, or purporting to have been drawn, upon itself by a firm or corporation.
  - (c) Any draft drawn, or purporting to have been drawn, by a public body upon itself.

The incoming check coverage excludes postdated checks, checks and drafts cashed as an accommodation or given in payment of open accounts or preexisting indebtedness, travelers' checks in whatsoever form drawn, and post-office and express money orders. The liability on any one check or draft is limited to \$50, and the aggregate liability for all losses under this coverage does not exceed \$100.

8. Post-office and express money order coverage indemnifies the insured for loss through exchanging, in good faith, merchandise, services, or money for any post-office money order or express money order issued or purporting to have been issued within the United States or Canada by any post office or express company, if such money order be not paid upon presentation. The liability on any one money order is limited to \$50, and the aggregate liability for all losses under this coverage to \$100.

**REWARD CLAUSE.**—A reward of \$50 will be paid to any person, except the insured and his officers or partners, for the capture, or for information resulting in the arrest, of persons subsequently convicted of committing or attempting to commit either burglary or robbery upon the premises during the term of the bond. Not more than one reward will be paid on account of any one crime. The surety's decision as to who receives any reward is final.

If any sum is paid in the settlement of any loss under any insuring paragraph, the amount will be deducted from the amount available as of the date of notice of the loss by the insured to the company. The remainder of the amount will apply to other losses covered, whether sustained before the date or thereafter, or partly before and partly thereafter. The sum so deducted will automatically be restored as of the date of the notice, but only as to losses sustained after the notice.

The bond contains provisions similar to some other bond and theft forms concerning termination as to dishonest employees, notice of loss, discovery period, contributing insurance, limitations, cancellation, salvage or recovery, subrogation, and assignment.

**Single Merchants' Protective Bond.**—This bond provides \$1,000 liability and contains the same provisions as the single fraud bond respecting coverage for larceny and embezzlement, robbery within premises, robbery outside premises, safe burglary, counterfeit paper currency, and kidnapping. For each of these six individual coverages, however, a limit of \$100 is set.

**ADDITIONAL COVERAGE PROVISION.**—The surety assumes liability up to a limit of \$100 for all damage to the insured's merchandise and fixtures caused by felonious opening or attempted opening of any safe by means of explosives, of which there are visible marks. Fire loss, however, is excluded.

A second additional liability assumed by the surety is for damage to doors, locks, metal screening, or bars caused by actual or attempted forcible entry into the premises while not open for business. The aggregate liability limit for this coverage is \$100.

A third coverage is for damage to cash registers owned by the insured, occurring under the circumstances as in the previous two coverages. Here again the liability limit is \$100.

**REWARD.**—As in the fraud bond, there is a provision for a reward of \$50 for burglary and robbery convictions. No more than two rewards will be paid for one crime.

The various clauses of the fraud bond and merchants' protective bond contain like provisions as to definitions of money, actual cost, termination as to dishonest employee, notice of loss, discovery period, contributing insurance, limitations, cancellation, salvage or recovery, subrogation and changes.

**The Crime Protective Bond.**—The crime protective bond resembles the single fraud and single merchants' protective bonds. A total coverage of \$3,000 is provided, including the following individual coverages:

Type	Aggregate
Larceny and embezzlement.....	\$200
Robbery within premises.....	300
Robbery outside premises.....	300
Safe burglary.....	300
Post-office and express money orders.....	300
Counterfeit paper currency.....	250
Kidnapping coverage.....	250
Incoming checks.....	250

The limit per post-office or express money order is \$100. The same limit applies for any one incoming check. The company's liability for checks is further limited to 50% of the face amount.

The crime protection bond also includes the following coverages found in the merchants' protective bond, but with higher liability limits :

Type	Aggregate
Merchandise and fixtures.....	\$250
Doors, bars, and screens.....	200
Cash registers.....	200

**REWARD CLAUSE.**—The \$50 reward clause found in the fraud bond also appears in the crime protective bond. But not more than \$200 for any one loss. The general policy provisions of the bond follow the fraud bond.

**Contract Bonds.**—The various types of bond in this group are essentially financial guarantees. They may be used to guarantee the price stipulated for construction work or supplies. The bond may also be used to guarantee payment for labor and materials. Included in this group are the following :

1. Proposal bond which is given in connection with the bid to obtain a construction job.
2. Construction bond which guarantees the completion of work, such as the construction of a building.
3. Maintenance bond which guarantees the condition of a job after completion, as, for example, guaranteeing a roof against repairs for a stipulated number of years.
4. Supply bond which is given usually to governmental bodies and which guarantees the furnishing of certain supplies at an agreed price.

Additional examples of contract bonds are guarantees for the following :

- (a) Performance by an employer who acts as a self insurer for his obligation under the Workmen's Compensation Law.
- (b) Payment of rent during a stipulated period of time.
- (c) Replacement of property in its original condition.

- (d) Construction of or financing improvements by realty operators required by a municipality or county.
- (e) Transportation of school children.
- (f) Hauling contracts.
- (g) Impairment of security of the mortgagee on property by demolition of buildings made for purpose of improvements.

In order to illustrate various bonds in this group, reference will first be made to bonds required by the Federal government. The bonds that are issued in favor of the Federal government are (1) proposal or bid bonds, (2) performance bonds, and (3) payment bonds.

The bid bond, as required by the Federal government, provides that the surety company is liable for a stipulated penalty if the principal (1) withdraws his bid within the period stipulated in the bond, after the opening of the bid, or if no period is specified, within 60 days after the opening, and (2) does not, within the period specified, or if no period is specified, within ten days after the forms are presented to him for signature, enter into a written contract with the government, in accordance with the bid as accepted, and (3) fails to give bond with good and sufficient surety or sureties, as may be required, for the faithful performance and proper fulfilment of the contract, or fails to pay the government the difference between the amount specified in the bid and the amount for which the government procures the required work or supplies.

**FEDERAL PERFORMANCE BOND—CONSTRUCTION OR SUPPLY.**—As stated previously, the bid bond requires the successful bidder to furnish the necessary performance bond. The performance bond provides that the contractor must (1) perform and fulfil all the undertakings, covenants, terms, conditions, and agreements of the contract during the original term of the contract and any extensions of the contract that may be granted by the government, with or without notice to the surety, and during the life of any guarantee required under the contract, (2) perform and fulfil all the undertakings, covenants, terms, conditions, and agreements of any and all authorized modifications of the contract that may subsequently be made, notice of which modifications to the surety is waived. Otherwise the surety is responsible for the penal sum as stated in the bond.

**FEDERAL PAYMENT BOND.**—In connection with construction work, the contractor is held responsible by the government for payment of labor and material. In order to guarantee the payment, the contractor must furnish a payment bond. This bond provides that the principal must promptly make payment to all persons supplying labor and material in the prosecution of the work provided for in the contract, and any and all duly authorized modifications of the contract that may subse-

quently be made, notice of which modifications to the surety is waived. Otherwise the surety company is responsible for the penal sum stated in the bond.

**Contract Bonds for Private Individuals or Concerns.**—The owner of land who desires to have a building constructed on his land may request bids from various contractors. As in the case of government requirements, a bid or proposal bond may be required. The successful contractor may also be required to give a contract or performance bond. In addition, a bond may be required guaranteeing that the contractor will pay for the labor and material used on the job. If the owner of the land requires assistance from a financial institution, the latter may require a bond guaranteeing that the money advanced will be used for completing the job.

**PRIVATE BID OR PROPOSAL BOND.**—The bid or proposal bond provides that if a contractor who enters a bid for a construction job within a stipulated number of days after being notified in writing of the award of the contract fails to execute and deliver the contract and necessary bonds for faithful performance of the contract and for the prompt payment of labor and material furnished in the prosecution of the contract, the contractor or surety must pay the damage, loss, cost, and expense subject to the amount of the bid bond directly arising out of the contractor's default in failing to execute and deliver the contract and bonds, including, but not limited to the sum by which the amount of the contract, covering the proposal, executed with another third party may exceed the amount bid by the contractor. The surety company therefore guarantees that in case the contractor defaults before acceptance of the bid, the company will be liable for either (1) the difference in price between the low bid and the next highest bid if the contract was awarded to the next higher bidder, or (2) the amount by which the new low bid exceeds the defaulted bid if the contract is readvertised and new bids requested.

**PRIVATE PERFORMANCE BOND.**—The provisions of the performance bond furnished by the successful contractor provide that (1) the surety company is obligated to the owner for a specified amount, generally a percentage of the contract price; (2) the contractor has entered into written agreement with the owner for the construction of the improvement in accordance with drawings and specifications, which agreement is made a part of the bond by reference; and (3) whenever the contractor is declared by the owner to be in default under the contract, the owner having performed his obligations, the surety must promptly (a) remedy the default, or (b) complete the contract in accordance with the

terms and conditions, or (c) obtain bids for submission to the owner for completing the contract in accordance with the terms and conditions. Upon determination by the owner and the surety of the lowest responsible bidder, the surety company must arrange for a contract between the new bidder and owner and make available as work progresses (even though there should be a default or a succession of defaults under the contract or contracts of completion) sufficient funds to pay the cost of completion less the balance of the contract price. This amount including other costs and damages for which the surety may be liable cannot exceed the penalty stated in the bond.

The term "balance of the contract price" means the total amount payable by the owner to the contractor under the contract and any amendments, less the amount properly paid by the owner to the contractor.

Any suit under the bond must be instituted before the expiration of two years from the date on which the final payment under the contract falls due. No right of action can accrue on the bond to or for the use of any person or corporation other than the owner named in the bond or the heirs, executors, administrators, or successors of the owner.

**PRIVATE LABOR AND MATERIAL PAYMENT BOND.**—Simultaneously with the performance bond, the labor and material bond is issued. This bond guarantees payment of labor and material furnished for the job. Provisions of this bond make reference to the penalty of the performance bond and the written contract between the contractor and the owner. The labor and material payment bond provides that if the contractor does not make payment to all claimants for all labor and material used or reasonably required for use in the performance of the contract, then the surety company is liable, subject, however, to the following conditions:

1. A claimant is one having a direct contract with the contractor or with a subcontractor of the principal for labor, material, or both, used or reasonably required for use in the performance of the contract. Labor and material are also construed to include that part of water, gas, power, light, heat, oil, gasoline, telephone service, or rental of equipment which is directly applicable to the contract.
2. The contractor and surety jointly and severally agree with the owner that every claimant who has not been paid in full before the expiration of a period of 90 days after the date on which the last of the claimant's work or labor was done or performed, or materials were furnished by the claimant, may sue on the bond for the benefit of the claimant in the name of the owner, but the owner will not be liable for the payment of any costs or expenses of any suit.

3. No suit or action can be commenced by any claimant unless the following provisions have been complied with :
  - (a) Unless the claimant has given written notice to any two of the following : the contractor, the owner, or the surety, within 90 days after the claimant performed the last of the work or labor, or furnished the last of the materials for which the claim is made, stating the amount claimed and the name of the party to whom the materials were furnished or for whom the work or labor was done or performed.
  - (b) After the expiration of one year following the date on which the contractor ceased work on the contract.
4. The amount of the bond penalty will be reduced by and to the extent of any payment made, inclusive of any payment by the surety of any mechanic's lien which may be filed on record against the improvement.

**PRIVATE MAINTENANCE GUARANTEE BOND.**—Under some contracts the builder is required to maintain, repair, or guarantee the job against defective workmanship or materials. In that event the performance bond can be written to include maintenance for a stipulated period, as, for example, 12 months after the completion date of the contract.

**LENDERS' DUAL OBLIGEE ENDORSEMENT TO THE PRIVATE PERFORMANCE BOND.**—The owner of the land may obtain his funds from a lending institution, and by endorsement during course of construction the lender can be protected against loss, subject to the performance of the owners' obligation to the contractor. In accordance with this endorsement, the contractor and surety agree upon the following :

1. The name of the lender is added to the bond as a named obligee.
2. The rights of the lender, as a named obligee, will depend on the performance of the owner's obligations to the contractor. However, the aggregate liability of the surety under the bond, to the owner and the lender, as their interests may appear, is limited to the penal sum of the bond. In addition the surety may, at its option, make any payments under the bond by check issued jointly to the owner and the lender.

**UNDERWRITING CONSIDERATION FOR CONTRACT BONDS.**—As a contract bond is a financial guarantee, the granting of the contract bond depends upon an investigation of the following facts by the surety company concerning the contractor.

1. Financial status of the contractor.
  - (a) *Amount of cash on hand.* A report may be requested from the bank as of the date of the financial statement furnished by the contractor to the surety company.

- (b) *Stocks and bonds.* The surety company will determine the value of the securities held by the contractor by the market price if the securities are listed on a stock exchange. Valuation of securities which are not listed will depend upon the available market for selling such securities.
- (c) *Accounts receivable.* This asset should be discounted for payments which are due on uncompleted contracts, as such accounts might not be paid in full. For example, claim may be made because of unsatisfactory work or other disputes between the contractor and the owners of the properties.
- (d) *Notes receivable.* Notes receivable are generally used in the course of mercantile or manufacturing business. Notes receivable are not assets which contractors generally receive for work that has been done. Therefore this asset is not given much consideration. The notes may have been accepted by the contractor because the owner was unable to pay for the work in cash.
- (e) *Plant machinery.* This asset should not be accepted for the amount stated on the balance sheet. If the contractor should be forced to liquidate his business, in the absence of an unusual situation, the machinery would have to be sold at a heavy sacrifice.
- (f) *Stock and supplies.* New stock and supplies can be regarded as an asset for the amount stated. The contractor may own secondhand supplies, such as lumber and brick. The value of secondhand commodities, in the absence of conditions limiting the availability of new stock and supplies, should not be given much consideration.
- (g) *Loans payable.* Investigation should be made as to whether any of the stocks and bonds owned by the contractor have been hypothecated as a loan. Furthermore, investigation must be made concerning mortgages on real estate owned by the contractor.

Loans should be verified in order to ascertain (1) whether the amount of each loan is correct, (2) whether the loans are secured or unsecured, (3) when the loans are due, and (4) whether each loan can be paid when due.

- (h) *Accounts payable.* If these accounts are due to material and supply dealers and for large amounts, the credit of the contractor may be adversely affected. The surety company should check with the various material supply men in the contractor's locality in order to ascertain whether the contractor owes any money to these concerns in order to be certain that all accounts payable are listed in the contractor's financial statement.
- (i) *Good will.* Consideration in the financial statement should be limited to the contractor's liquid assets which can be realized

on at a forced sale. Therefore no consideration should be given to the value of good will as an asset.

2. Ability. The contractor may have undertaken a job for which he has had no previous experience. On the other hand, if he has done similar jobs, the underwriter will have confidence that he can complete the new job at the price for which he has agreed to perform the work.
3. Other work. A contractor may have undertaken too many jobs, and therefore might not be able to complete the new job. The surety, therefore, should require the contractor to furnish the following information:
  - (a) The condition of all pending jobs.
  - (b) Bids filed for all other jobs, stating the amount of each bid and the nature and location of each proposed job.

**Annual Guarantee Bond.**—A special form of the supply bond is the annual guarantee bond. The practice of governmental bodies is to demand a bond where a business concern sells commodities constantly to the government. The bond guarantees that such goods will be delivered at the price mentioned in the contract. This form of bond is issued to those equipped to sell to the government particular supplies bid. An example of this bond is the Annual Guarantee Bond required by the State of New York.

The bond provides that the bidder contemplates making proposals and accepting awards as made from time to time for furnishing supplies for the use of the State of New York for which the Superintendent of Standards and Purchase may, by advertisement in accordance with law, invite proposals and award contracts.

The bidder guarantees that in the case of each and every proposal made by the bidder and accepted by the Superintendent of Standards and Purchase during a period of one year from the date of the guarantee for furnishing supplies for the use of the State of New York, the supplier will, if and when required, enter into a contract with additional security for furnishing the supplies and for the full performance of the contract. If additional security is not required, the principal will furnish the supplies and faithfully fulfill the obligations of his proposal as accepted. In each and every case in which the principal fails to faithfully fulfill the obligations of his contract, the surety guarantees to make good the excess over the price named in the proposal of the bidder and the amount the state may, on account of the failure, have to pay for the supplies when bought in the open market or by contract with some other person, covering the period of the proposal. The total liability under the guaranty is subject to a specified limit.

**Lost or Destroyed Instruments Bond.**—When checks and negotiable instruments are lost, the maker is naturally reluctant to issue a duplicate for fear the original may be found and both may be cashed or collected. To protect against duplicate payment of settlement with the wrong party, a lost instrument bond may be obtained from a surety company.

**BOND PROVISIONS.**—This bond contains the following provisions:

1. Representation of the principal that he owns the missing securities.
2. Request of the principal to the obligee for the issuance of duplicate instruments or for credit to the principal's account of the face amount involved.
3. Compliance of the obligee or the obligee's willingness to comply.
4. The surety's agreement to be liable unless the principal or any of his legal representatives, heirs, successors, or assigns come into possession of the original securities. In that event, delivery of the original instruments to the obligee releases the surety from liability.
5. The surety's further agreement to indemnify the obligee against any valid or groundless claims or action, and against any losses or expenses by reason of the mislaid securities or because of the issuance of duplicate instruments or crediting of the face amount of the originals.

**LIABILITY OF SURETY.**—The surety assumes these liabilities, irrespective of inadvertence, accident, oversight, or neglect of the obligee or of any of his officers, agents, or employees. Similarly, omission or failure of the obligee to contest the right of any applicant to receive payment, credit transfer, or delivery of the original or duplicate instrument does not release the company from liability.

**License and Permit Bonds.**—The various subdivisions of the government—Federal, state, and local—have enacted laws to regulate certain types of business. The Federal government, for example, imposes a tax on the importation of goods. An example of state regulation is the commission merchants' bond required by New York State. The plumbers' and auctioneers' bonds required by New York City are illustrative of the license and permit bonds required by cities.

**Federal Permit Bonds—Custom House Bonds.**—In many instances a business may become liable for certain taxes, such as custom taxes. The principal may desire to import certain goods temporarily and not for use in the United States. Permission to take goods without paying custom tax will be granted, provided a bond is given to the Federal government guaranteeing that the importer will observe the Federal require-

ments that the duties, plus penalties, will be paid if the importer keeps the goods beyond a stated period.

Importers are permitted to keep goods in bonded warehouses for a period not exceeding three years. The duty is not paid until the merchandise is withdrawn from the warehouse. If the merchandise is re-exported, no duty is collected. In order to keep the goods in a warehouse without payment, the importer must furnish the government with a bond guaranteeing that the goods will be withdrawn within the stipulated period of time and that the duty will be paid or that the goods will be returned within the same period of time.

**Federal Immigrant Bonds.**—An immigrant may be permitted to enter the country temporarily for a specific purpose as, for example, medical treatment, for study, or for travel. A bond is required by the Federal government guaranteeing that the immigrant will depart from the country within a certain agreed time, and that the alien will not become a public charge.

**Federal Internal Revenue Bonds.**—Before certain commodities can be sold, Internal Revenue stamps must be placed on the articles. A bond must be furnished by a dealer in these commodities guaranteeing that he will comply with all Federal government regulations and make payment of the required taxes in accordance with the law. Examples of concerns which must furnish Internal Revenue bonds are brewers, distillers, and manufacturers of cigars and cigarettes. The bond guarantees that the manufacturer will affix revenue stamps in accordance with government regulations.

**Federal Export Bonds.**—Articles such as tobacco, playing cards, oleomargarine, and other products are subject to tax. However, these articles can be exported free of tax. Under such circumstances a bond is required which guarantees the amount of the tax and the payment of the penalty if (1) the goods are not exported, or (2) if the goods are exported and are then fraudulently returned to this country.

**State License Bonds—Commission Merchants' Bonds.**—This bond is needed when the principal has applied to, or is about to apply to, the State Commissioner of Agriculture and Markets for a license to engage in the business of receiving farm products for sale on a commission basis.

Under this bond the surety is liable unless the principal performs the following: (1) faithfully complies with the provisions of the Agriculture and Markets Law; (2) honestly accounts to consigners for all farm products received for sale on commission; (3) promptly pays all amounts becoming due for farm products received for sale on commission.

**Public Warehouse and Grain Elevator Bonds.**—Public warehouses and grain elevators issue warehouse receipts covering articles such as grain, cotton, and other agricultural products. In many states a bond must be furnished guaranteeing that the merchandise described in the storage receipt will be delivered upon presentation of the receipt and in accordance with the terms of the receipt. The bond also guarantees the holder of the certificate, or anyone who has made a loan upon the certificate, against the fraudulent removal of the property or against the issuing of any fraudulent documents against the property.

**Local License and Permit Bonds.**—As illustrations of the license and permit bonds required by New York City, bonds that are issued to (a) plumbers and (b) auctioneers will be briefly considered in the following paragraphs.

**PLUMBERS' BOND.**—This bond is used when the principal is to be permitted to make any excavations, openings, or other disturbance to the pavement or sidewalk in public places for the purpose of making necessary changes in connection with surface or subsurface structures, pipes, sewers, or for any other purpose. The surety is liable unless the principal carries out the following:

1. Pays the city for the cost of repairs to the pavement required by reasons of excavations or other disturbances to pavements as well as the cost of inspection of the work performed by the principal.
2. Complies with all ordinances relating to opening and excavating or otherwise disturbing pavements in streets or in other public places.
3. Saves harmless and indemnifies the city from all claims for damages for injury to persons and property arising out of any act or omission of the principal or his agents performing any work or delivering any materials.
4. Properly refills and rams the earth, removes and restores to the satisfaction of the city the pavement removed or disturbed, and repaves the same should the pavement, sidewalk, or curb settle or become out of order within six months after date of restoration of pavement.
5. Indemnifies the city for all costs and counsel fees and damages for accidents arising out of the acts or omissions of the principal.

**AUCTIONEERS' BOND.**—This bond is used in connection with the principal's application to the City of New York for a license to engage in the business and occupation of auctioneer.

The surety is liable for the penal sum unless the bonded person and all persons in his employ comply fully with the terms, covenants, and conditions granted by the license, properly to carry on the business of auctioneer, and observe all state and local city laws, ordinances, and resolu-

tions of the City Council of the City of New York, in full force or which may be adopted during the period of the bond.

The following are additional and important license bonds issued to meet various local legal requirements :

- |   |                              |
|---|------------------------------|
| 1. Public express.                        | 6. Junk dealer.              |
| 2. Weighmaster.                           | 7. Bathhouse.                |
| 3. Laundry.                               | 8. Ticket agency.            |
| 4. Checking facility operator.            | 9. Employment agency.        |
| 5. Installation of oil-burning equipment. | 10. Official weighing-scale. |

**Public Official Bonds.**—When a citizen is elected to office he may have occasion either to handle money which he might convert to his own use or to perform services which, if improperly performed, may cause monetary loss to a governmental body. To protect the governmental body a bond is required guaranteeing his faithful performance of all duties. These bonds are given by the surety company. The factors that the companies consider in determining the desirability of the risk are the following: (1) honesty of the official elected, his business experience, and financial standing; (2) whether the official may sign checks alone or with a countersignature; (3) methods of auditing the accounts.

Unlike many other bonds, the surety generally has no right to cancel, as the bond is issued to cover the term for which the principal was elected. Termination of the surety's liability depends upon statute. Unless otherwise provided by law, liability of the surety company must continue for the full term of office.

Types of public official bonds are: treasurers' bond, tax collectors' bond, and Federal officials' bond.

**Treasurers' Bonds.**—In some localities, the treasurer may hold two positions. This presents a special danger in view of the inadequate accounting control.

**Tax Collectors' Bonds.**—In some jurisdictions a tax collector may be responsible for all the taxes, although all taxes have not been collected. Generally a tax collector works without very much supervision, and therefore the risk is very hazardous.

**Federal Officials' Bonds.**—These bonds are issued for employees of the Federal government who have occasion to handle money. As a group they are very desirable risks for the following reasons: (1) the government makes frequent audits of moneys collected; (2) the activities of the investigating service are an incentive to honesty on the part of the Federal employees.

**Court Fiduciary Bonds.**—To protect assets of estates which come within the jurisdiction of a court, the fiduciary appointed to administer the estate is required to give a court (fiduciary) bond. The fiduciary is liable for any misfeasance resulting in a monetary loss to the estate. The fiduciary bond, therefore, guarantees against dishonesty and also loss due to negligence or lack of ability of the administrator.

There are two types of fiduciaries: (a) fiduciaries who merely liquidate the trust estate—this type includes executors and administrators of estates, receivers, and trustees in bankruptcy; and (b) fiduciaries who preserve and invest assets of the estate—this class includes guardians of minors, committees for incompetent persons, and trustees appointed under a will or deed of trust.

**ESSENTIAL CONSIDERATIONS.**—The following factors are considered in issuing fiduciary bonds:

1. The fiduciary's character and financial ability and the question of his indebtedness to the estate.
2. The reputation of the fiduciary's attorney, which assists the company in determining the character of the fiduciary.
3. Whether or not the fiduciary is required to continue the conduct of a business.
4. Joint control of assets with the fiduciary. To protect themselves properly, the surety companies may demand joint control in most cases. In effect it prevents any possibility of material loss to the estate. Incidentally, joint control benefits both the heirs and the fiduciary. In order to avoid delay in the handling of minor matters, the surety company will permit the fiduciary to control a small amount of money without any joint supervision.

If money in a savings bank is involved, the savings bank may refuse to consent to joint control. The surety may then require the fiduciary to use another bank or deposit the savings-bank book in a safe-deposit box under joint control with the surety company. Securities must also be kept in a safe-deposit box in the name of the estate. Securities can be removed from the safe-deposit box only while a representative of the surety company is present.

Joint control is sometimes waived when the executor of the estate employs counsel of high legal standing who is known to the surety company. Incidentally, if the estate is small or if the estate is subject to final distribution promptly and under the direction of a competent attorney, the surety company may also waive the joint control.

**Special Probate Bonds.**—In connection with the administration of an estate the following bonds may be used:

1. An heir of an estate may desire to receive a portion of his legacy before the fiduciary is prepared to make the distribution to the legatees. The executor or administrator may consent to the distribution provided that the heir gives the fiduciary a bond guaranteeing the fiduciary against possible loss.
2. The estate may have insufficient personal assets on hand to pay the debts, and in consequence the real estate might have to be sold to satisfy creditors. Under such circumstances the heirs may be able to obtain a bond guaranteeing payment of the debts to the creditors and thus avoid the disposition of real property at a forced sale.
3. If a good offer is made, heirs may desire to sell real estate before the passing of statutory time for the filing of claims. Under such circumstances the executor or administrator will require a bond guaranteeing against loss if the funds from the personal property should be insufficient to pay all the creditors. The bond usually required guarantees the buyer or title guarantor against claims of the creditors of the estate.

**Court (Guarantee) Bonds.**—There are many circumstances under which a plaintiff or a defendant in an action demands a privilege which may result in a monetary loss to the opposing party. Such circumstances may be illustrated both by plaintiff and defendant actions.

A plaintiff may go to court and obtain, in connection with various actions, (1) an injunction forbidding a defendant to do a certain act or to manufacture a certain article; (2) an attachment of the defendant's property when the defendant is not within the jurisdiction; (3) a replevin of goods which he claims belong to him; (4) an appeal from a court decision rendering a judgment against him.

The defendant may go to court and obtain, in connection with various actions: (1) an order to dissolve an injunction obtained by the plaintiff; (2) an order to discharge an attachment against his property; (3) an order to discharge a replevin against his property; (4) appeal from a court decision rendering judgment against him.

To guard against improper use of the courts and to protect the opposing party, the law demands that a bond be given before such an action may be initiated. In many cases the company will issue a plaintiff's bond more readily than a defendant's bond, especially if the company's liability is limited to court costs. However, if the defendant loses, the company may be required to pay a substantial judgment. Under such circumstances the probable liability of the surety company is therefore less when issuing a plaintiffs' bond than a defendants' bond. In view of this great hazard of defendants' bonds, collateral is demanded much more frequently in connection with such bonds.

Although the primary purpose of the court guarantee bond is to prevent delay and abuse in connection with legal rights, the use of these

bonds has been increased because of their superiority over depositing money in the courts. Money deposited in the courts earns no interest, and some difficulty may be encountered in obtaining its return if the case is decided in favor of the applicant. These limitations are avoided by use of court guarantee bonds.

**CLASSIFICATION OF COURT GUARANTEE BONDS.**—Some common types of court guarantee bonds that will be briefly analyzed are the following: (1) order of arrest bond, (2) bail bond, (3) security for costs bond, (4) stipulation for value bond, (5) petitioning creditor's bond, (6) sheriff's indemnity bond, (7) bond to discharge mechanic's lien, and (8) appeal bond.

**Order of Arrest Bond.**—To obtain an order of arrest which otherwise would not be issued, the plaintiff must first furnish a bond guaranteeing court costs and damages sustained by the defendant.

**Bail Bond.**—Persons who have been arrested and duly admitted to bail may be released upon deposit of a bond with the court. The bond guarantees the following: (1) the defendant will appear and answer the charge in whatever court it may be prosecuted; (2) he will at all times render himself amenable to the orders and process of the court; (3) if convicted, he will appear for judgment and render himself in execution thereof; (4) if he fails to perform any of these conditions, the surety will pay the sum fixed by the court.

Surety companies usually will not issue bail bonds for persons who have committed violent crimes or who are repeated offenders.

**Security for Costs Bond.**—In some cases a defendant has the right to require the plaintiff to furnish security for the payment of all costs that may be awarded by the court against the plaintiff. The plaintiff generally files in court a bond securing these costs.

**Stipulation for Value Bond.**—Where a libel has been filed against a ship, making it subject to seizure and putting it in the custody of a marshal, the owner may file a bond releasing the vessel. This bond guarantees that if the libellant recover, any judgment, plus interest and costs, will be paid.

**Petitioning Creditors' Bond.**—Where a petition is filed for a bankruptcy adjudication, and where an application has been made for the appointment of a receiver, the petitioners must file a bond. The bond guarantees that if the petition is dismissed, the alleged bankrupt will be paid all expenses, costs, and damages.

**Sheriff's Indemnity Bond.**—A sheriff undertaking a doubtful seizure of property may require an indemnity bond from the persons request-

ing seizure of the property so that he may fully protect himself if the action should be declared to be improper.

**Bond to Discharge a Mechanic's Lien.**—A contractor or subcontractor, to protect himself, may place a lien against property for work and materials which have not been paid when due. When a mechanic's lien is filed, the owner of the building or the contractor discharging the mechanic's lien customarily files a bond for an amount sufficient to cover work and materials claimed to be unpaid and incidental costs.

**Appeal Bond.**—When a judgment is rendered against one of the parties to a civil action, before the right to appeal is granted the court will demand security for the judgment and costs to stay execution. This is usually accomplished by filing an appeal bond with the court.

**Fraudulent Assigned Accounts Receivable.**—There are various concerns which advance money on the assignment of accounts receivable to manufacturers and jobbers. Finance organizations may suffer loss due to fraudulent acts of assignors. Protection against such loss is provided by the "fraudulent assigned account receivable bond." Under the bond, the surety company agrees to pay and make good to the insured a stipulated percentage, usually 85%, of any direct loss sustained by the insured.

The loss must be caused by some one or more of the following :

1. By reason of having in good faith and in the usual course of business purchased, taken, received, made advances on, loaned against, or extended credit upon an assignment in writing by a customer of the insured, as security for a loan to the customers, of an account receivable, provided the assignment proves to be counterfeit, fraudulent, forged, fictitious, raised, invalid, or of no value solely because the customer did not have title to the account receivable at the time of the assignment.
2. By reason of the misappropriation, conversion, or theft by a customer of the insured or employee of the customer of any proceeds of an account receivable previously assigned in writing by the customer of the insured, or of any returned or rejected merchandise out of the sale of which the account receivable was created.

An "account receivable" means a sum of money due to a customer of the insured for merchandise sold and delivered or for services rendered or work done by a customer of the insured for the purchaser from the customer.

The policy is subject to the following limitations and requirements :

1. The insured must bear a stipulated percentage, as, for example, 15% of each loss.

2. The company's liability is limited to a specified amount for any one loss in respect of any one customer.
3. In computing the amount of loss under the policy, all equities held by the insured must first be applied in reduction of the loss. Furthermore, interest and service charges upon the items comprising the loss must be excluded.
4. The total liability is limited to the amount stated in the bond. Upon the discovery of any loss, the amount will be reinstated and a further premium must be paid, calculated pro rata upon the annual premium of the unexpired time and the amount of the loss.
5. No liability will attach for losses not discovered within the policy period of 12 calendar months. In the event of termination or non-renewal, the insured will have the 12 calendar months following the date of termination or expiration of the policy in which to discover losses sustained between the date named in the warranty and the date of the termination or expiration.
6. In the event the policy is terminated or expires and is succeeded immediately by a similar policy with another company embracing all or some of the hazards or interest covered by the policy, the succeeding policy will be deemed to be renewal. Therefore the 12 months extension clause will be inoperative in respect of the hazards or interest covered by the renewal policy.
7. The policy is an excess policy only if there is any other insurance.
8. The company, upon the payment of any loss, becomes subrogated to all the rights and remedies of the insured in respect of the loss. Written notice of any loss must be given as soon as practicable, together with all the particulars for the purpose of identification, and other information available.
9. In case of recovery from the person liable for the original loss, the expenses, if any, of making the recovery will be deducted. The balance will be divided between the insured and the company in proportion to the loss borne by each, except that the insured must first be reimbursed for the amount of any loss borne by the insured over and above the amount collectible under the policy.
10. The company has the privilege of inspecting the insured's books for the purpose of determining the amount of advances against assigned accounts receivable and the manner in which they are set up on the records of the insured.
11. If the insured makes any claim which is false or fraudulent, as regards amount or otherwise, the policy becomes void and all claim will be forfeited. However, no statement made by or on behalf of the insured will be deemed to be a warranty of anything except that it is true to the best of the knowledge and belief of the person making the statement.
12. The premium paid is provisional and is subject to adjustment on expiration. The adjustment will be based upon the average daily amount of loans outstanding on the assigned accounts receivable.

In addition to accounts receivable, coverage is also available against loss for any of the following reasons :

1. By reason of the assignment of any accounts for amounts to become due under contracts with the Government of the United States of America for goods sold, but to be manufactured, purchased, or fabricated, and delivered at a later date by a customer of the insured, assigning all moneys due under the contracts to the insured or to a trustee for the benefit of the insured.
2. By reason of the conversion or theft by a customer of the insured of the proceeds of property represented by an instrument such as a chattel mortgage, a conditional sale contract, a promissory note, a trust receipt for goods in the United States of America and the Dominion of Canada only, or an account receivable pledged with or assigned in writing to the insured as security for a loan made to the pledger.
3. By reason of the conversion or theft by a customer of the insured, or by the customer's employee, of property located in the United States of America and Dominion of Canada only, or the proceeds of the property, provided the insured has made advances on, loans against, or extended credit upon instruments such as a chattel mortgage, a conditional sales contract, or a trust receipt representing a valid and enforceable lien against, or a valid and enforceable security interest in, the property. However, no liability will attach if the insured did not file and record the instrument in accordance with the statutes of the state in which the customer resides or the property is located.
4. By reason of the conversion or theft by a customer of the insured, or employee of the customer, of the property or the proceeds of the property pledged with the insured as security for loans or advances, and upon which the insured has a general lien under the provisions of the state law. At the time of making the loans or advances and at all times subsequent, the insured must comply with the provisions of the state law so as to keep the general lien in full force and effect.
5. By reason of loss on a warehouse receipt if the warehouse receipt, which at the time of the purchase, taking, receipt, advance, loan, extension of credit, or acceptance as collateral security, is of no value or is of impaired value to the insured, because of any of the following reasons :
  - (a) The holder of the warehouse receipt at the time of the transaction did not have good and unencumbered title to the property represented by the warehouse receipt subject only to the lien of the warehouseman.
  - (b) The warehouse receipt is counterfeit, forged, fictitious, raised or invalid.
  - (c) The property is not of the kind or quality or quantity described in the warehouse receipt.
6. If the loss was due to the misappropriation, conversion, theft, or

larceny of the insured or by any of his employees, or by a warehouseman or any of his employees, of any property represented by the warehouse receipt held by the insured, also loss due to theft of a receipt from the premises of a warehouseman by burglary, robbery, theft, holdup, or larceny.

A "warehouseman" means any firm that is in the business of storing goods of others for profit. The term "warehouse receipt" includes only those instruments which conform to the provisions of the Uniform Warehouse Receipts Act as to the form of receipts, and which represent commodities deposited within the limits of the continental United States of America or Canada. Receipts issued by the depositor of commodities or his agent (provided the depositor is not a bona fide warehouseman lawfully engaged in the business of storing goods for profit) are known as "subsidiary warehouse receipts" and are excluded from the coverage afforded by the policy.

Under the policy there is no liability for loss on warehouse receipts for any of the following reasons:

- (a) For loss occasioned by inherent vice or natural deterioration of property represented by a warehouse receipt.
  - (b) For loss or damage to property resulting from war, civil war, insurrection, military, naval or usurped power, riot or civil commotion, windstorm, tornado, cyclone, subterranean fire, earthquake, volcanic eruption, or such like disturbance of nature.
7. By reason of a loss sustained due to the misappropriation, conversion, theft, or larceny by a customer of the insured of any property in the continental United States of America or in Canada, represented by a bill of lading, or of any property in the continental United States of America or in Canada held by the customer under a trust receipt, provided the insured has in good faith and in the usual course of business purchased, taken, received, made advances upon, loans against, extended credit upon, or accepted as collateral security to a loan, the bill of lading, or paid, advanced, or loaned money or extended credit to the customer in reliance upon the trust receipt.

### QUESTIONS AND PROBLEMS

1. (a) *A* demanded that *C* obtain a contract from a third party guaranteeing that *C* would construct a building for *A* within 100 days. What are the various parties involved in the proposed guarantee called?  
(b) Discuss the reasons for the development of corporate bondings.  
(c) What is the distinction between fidelity bonds and surety bonds?  
(d) *A* desired a bond from the *B Surety Company*. The surety company demanded collateral. *A* offered the following securities:

- (1) Savings bank book indicating a balance of \$500.
- (2) Fifty per cent of the stock of the *X Manufacturing Company*, which showed a surplus of \$50,000 in its financial statement.
- (3) Title to *A*'s residence. The market value of the residence was \$10,000, subject to a mortgage of \$9,000.

Discuss the advisability of the surety company's accepting this collateral.

2. (a) *M* requested a bond for *N*, whom he expected to employ as a cashier. An investigation of *N*'s employment records indicated that he had been previously employed for two years as a taxi driver in one position, and that he played cards several times a week. An investigation of the employer's records indicated that he employed an accountant who audited the books once a year, and a cashier who also acted as a bookkeeper. Discuss the advisability of issuing the bond.
  - (b) State various reasons for the refusal of bonding companies to issue fidelity bonds.
  - (c) *R* desired to bond *Q*, who was his cashier. He requested the *C Surety Company* to issue the bond without permitting *Q* to know he was to be bonded. Discuss the advisability of issuing the bond.
3. *X* obtained individual fidelity bonds for six of his employees. Each bond was written for a penalty of \$3,000. Describe the company's liability under the following circumstances:
  - (a) *B* stole \$2,500 cash and merchandise valued at \$1,000. *X* notified the company 30 days after the discovery of the loss.
  - (b) *C* forged *X*'s name to a check. The amount of the check was \$600.
  - (c) *X*'s bond had been renewed for three years. *D* stole \$7,500. *X* discovered the loss 12 months after *D*'s bond had been terminated.
  - (d) *E* stole \$2,000. As *X* knew *E*'s family, *X* did not desire to prosecute *E* or to help the bonding company recover the money.
  - (e) *X* discovered that *F* had stolen merchandise valued at \$100. As *X* thought the amount was trivial, he forgave *F*. Two months later *F* stole merchandise valued at \$3,000.
  - (f) *G* stole \$4,000. The bonding company made an investigation and was able to recover \$300 from *G*. The expenses for recovering the money from *G* amounted to \$50.
  - (g) *X* had carried his bond with the *A Surety Company* for ten years. However, on January 15, 1950, *X* changed his carrier to the *C Surety Company*. The *C Surety Company* had renewed the bond for two years. On January 25, 1951, *X* discovered that *H* had stolen \$6,000 on June 10, 1946.
  - (h) Suppose, in the above problem, that the bond obtained from the *C Surety Company* provided a penalty of \$2,500 for each employee.
4. *S* obtained a name fidelity schedule bond. Explain the company's liability for the following:

- (a) In the bond, the amount of coverage on *B* was \$2,500. The combined coverage for all employees was \$150,000. *B* stole \$3,000.
- (b) On June 15, 1951, the coverage on *C* was reduced from \$2,500 to \$1,500. On July 20, 1951, *S* discovered that *C* had stolen \$4,000 on January 5, 1951.
- (c) *S* obtained a name fidelity schedule bond on June 15 and hired *D* on the same day. On June 30 *E* took the position formerly held by *D*, who was listed on the schedule for \$2,500. On July 1 *E* stole \$1,500 of *S*'s funds. Suppose *S* notified the company on July 9 that *E* had been employed. *S* discovered the loss on August 20.
5. (a) Compare the individual fidelity bond and the name schedule bond as to the time limit to discover loss, salvage, and termination.
- (b) What are the essential differences between the broad and limited name schedule bonds?
- (c) *R* was the real estate agent. *R* bonded four of his rent collectors for \$2,500, respectively. Discuss the company's liability for the following:
- (1) *B*, an employee, forged *R*'s name to a check for \$1,500.
  - (2) *C* did not account for \$1,500. *R* discovered the loss two months after the termination of the bond.
  - (3) *D* was employed two months after the issuance of the bond. *D* stole \$1,800.
  - (4) *E* collected \$4,000 which he did not give to *R*. The company admitted liability under the bond. As a result of an investigation, the company was able to recover \$1,500, and it paid \$250 in expenses to recover the money.
6. (a) *Y* obtained a position bond covering five cashier positions and four bookkeeper positions on April 15. Each cashier was bonded for \$5,000, and each bookkeeper was bonded for \$3,000. Explain the company's liability under the following conditions:
- (1) At the time the bond was issued, the cashiers were respectively *B*, *C*, *D*, *E*, and *F*. Subsequently *B* left *Y*'s employment, and *Y* hired *G* as a cashier. *G* stole \$6,000. The company recovered \$500, and the expenses to make the recovery amounted to \$50. The loss was discovered on August 10.
  - (2) *D* sometimes worked as a bookkeeper. At other times he also worked as a cashier. While working as a cashier, *D* stole \$3,500.
- (b) Compare the name schedule and position bonds if amounts on positions are increased or reduced, newly created positions, time limit for discovery of loss, suit, and salvage.
- (c) Compare the limited and broad form position blanket bonds.
7. (a) *T Corporation* obtained a primary commercial blanket bond for \$100,000 on January 10, 1951. Describe the company liability under the following circumstances:

- (1) *R* requested the president of *T* to keep \$500 belonging to *R* for several days. The president placed the money in the safe of *T*. *C*, an employee of *T*, stole the money. The president of *T* reported the loss within seven days after knowledge of the loss.
  - (2) *B*, the vice-president and a director of the *T Corporation*, stole \$10,000.
  - (3) *C*, who was a sales representative of *T*, collected \$1,500 from a customer of *T*'s. *C* did not remit the funds to *T*.
  - (4) At the end of the fiscal year, the auditors for *T* prepared a merchandise inventory. The auditors discovered an inventory shortage of \$1,500. *M* was in charge of the merchandise.
  - (5) Two years after the bond had terminated, *T* discovered that *E* had stolen \$2,500.
  - (6) During the year there was an increase in business. *T* hired 50 additional employees. *C*, a new employee, stole \$5,000.
  - (7) Suppose the increase in the above problem was due to the consolidation of *N*'s business with *T*'s business?
  - (8) As a result of an analysis of *T*'s business, the latter decided to bond the president and vice-president individually under a specific fidelity bond for the following amounts: president, \$50,000; vice-president, \$25,000. Subsequently the president stole \$75,000.
  - (9) During the year 1951 the following losses occurred, due to misappropriation by different employees: \$50,000, \$20,000, and \$40,000.
  - (10) *C* had been employed for several years as an outside collector. Ten days after *C* had left *T*'s employment, *C* visited some customers and collected \$500. He retained the funds.
- (b) Describe similar provisions in the commercial blanket bond and the schedule fidelity bond.
8. (a) *N* purchased a \$25,000 blanket position bond. State the company's liability under the following circumstances:
- (1) *N* employed 60 clerks. *B*, an employee, stole \$10,000, and later, *C*, another employee, stole \$20,000.
  - (2) One of the two employees, *B* and *C*, acting in collusion, stole \$30,000.
- (b) Compare the discovery period of the blanket position and the commercial blanket bonds.
- (c) Explain the methods used to determine the premium for blanket bonds.
9. The *A Company* sent goods to the *B Company* on consignment. *A* purchased a consignee's bond with a penalty of \$5,000 on January 15, 1951. Discuss the company's liability for the following:
- (a) *B* sold goods to *C*. *C* failed.
  - (b) *B* did not account for goods sold at various times during the policy term and renewals of the policy. The total loss was \$6,000.

- (c) Two years after the bond had terminated, *A* discovered that *F*, the vice-president of the *B Company*, had stolen *A*'s merchandise valued at \$1,500.
  - (d) *A* had not obtained an accounting for goods delivered to *B* for two months. Nevertheless *A* continued to consign goods to *B*. After an investigation, *A* discovered that the president of the *B Company* had sold the goods, and that he did not remit to *A*.
  - (e) *A* suffered a loss of \$6,000. The surety company paid *A* the penalty of the bond. Subsequently the surety company recovered \$1,200 and paid \$200 in order to make the recovery.
  - (f) At the end of 6 months, *A* discovered that *B* had used funds received for *A*.
10. (a) Explain the need for forgery bonds.
- (b) What coverage is provided by the depositor's forgery bond?
- (c) *R* purchased a depositor's forgery bond for \$100,000. Discuss the company's liability for the following:
- (1) A check signed by *R* was raised from \$15,000 to \$20,000 by *S*, an employee.
  - (2) *R*'s employee prepared a check for \$1,000 in the name of *B*, which *R* signed. *R*'s employee then endorsed the check in *B*'s name.
  - (3) *C* presented a bill for merchandise sold by *D* to *R* for payment. *R* prepared a check and *C* endorsed *D*'s name on the check. *C* did not work for *D*.
  - (4) *E*'s payroll check was mailed to *E*'s home. *F* removed the letter from *E*'s mail box, *F* opened the envelope, obtained the check, and endorsed *E*'s name on the check.
  - (5) Suppose, in the above problem, that the check was signed for *R* by a machine signature.
  - (6) *C* presented a check for \$500 drawn on the *X Bank* and purporting to be made by *R*. *C* had obtained the check from *D*, to whom the check was payable. The bank refused to pay the check, claiming that the signature of *R* had been forged. Suit was commenced against the bank, and a verdict was rendered in favor of the bank. The bank paid legal fees of \$100.
  - (7) *R* sold merchandise to *B*. *B* gave a check to *R*, drawn by *C* for \$500. The signature of *C* had been forged.
  - (8) Suppose, in the case just presented, that the instrument given to *R* was a traveler's check.
  - (9) Suppose that the check was given to *R* in payment for merchandise sold on 60 days credit extended to *B*.
  - (10) *B* gave *R* a check for \$250 for work performed by *R*. The check was purported to have been drawn by *C*, but the signature of *C* had been forged. As a result of investigation, the surety company was able to recover \$80 from *B*.

- (d) Compare the commercial blanket bond and forgery bond as respects superseded suretyship, reinstatement after loss, and discovery of loss after cancellation.
  - (e) Discuss the coverage of the 3D policy.
11. (a) Explain the following clauses in the bankers' blanket bond: Property covered, perils covered, premises, customer's insurance, transportation, forgery, securities, exclusions, tellers' shorts, loans, property not owned, property in safe-deposit boxes, foreign exchange, restoration and discovery period.
- (b) What are the essential differences between the bankers' blanket bond and the investment bankers' and stockbrokers' blanket bonds?
12. *Q* had a single fraud bond.
- (a) Discuss the company's liability under the following conditions:
- (1) *Q* claimed that either one or two employees stole merchandise valued at \$125.
  - (2) While *Q*'s premises were open, a robber entered, held up *Q*, and stole merchandise valued at \$75 and express money orders amounting to \$50.
  - (3) *Q* sent *B*, an employee, to the bank to deposit receipts amounting to \$75. While on his way, *B* was held up and the money was taken from him.
  - (4) While *Q* was temporarily away from the premises, a burglar entered and forced the lock of the safe and stole securities valued at \$1,000. Marks of forced entry were visible on the safe.
  - (5) *A* owed *Q* \$75 for groceries that he had purchased at various times. *A* gave *Q* paper currency amounting to \$50. However, when *Q* deposited this money in the bank, he was advised that the currency was counterfeit.
  - (6) After business hours, *C* forced *Q* to return to *Q*'s store and open the lock, permitting *C* to enter. *C* stole merchandise valued at \$500.
  - (7) *R* purchased goods for \$60 and gave *Q* a check for that amount, purporting to be made by *P*. However, the signature of *P* had been forged.
  - (8) State the company's liability in the case just presented if *R* had given *Q* a money order purportedly payable to *P*.
  - (9) As a result of holdup, *Q* lost \$100 in merchandise. Two months later, *C*, an employee, recognized *L* as the one who caused the holdup and had him arrested. *L* was subsequently convicted.
- (b) *Q* suffered a loss of \$100 in merchandise, due to burglary on January 20. *Q* notified the company of the loss on January 21. Subsequently, on February 1, *Q* suffered another burglary loss amounting to \$120.

- (c) Describe the provisions of the fraud bond that are similar to those of other bonds.
13. *N* had a single merchants' protective bond.
- (a) Discuss the company's liability in the following situations:
- (1) When the premises were closed, *B* broke in and stole \$50 in cash. As a result of damage done by *B*, *N* had to spend \$25 to repair the cash register and \$50 to repair metal screening. The burglar covered *N*'s safe with *N*'s merchandise while attempting to force open *N*'s safe. However, he did not succeed in opening the safe, but the merchandise was damaged, for which *N* claimed \$75.
  - (2) In one month there were five attempts to burglarize *N*'s premises, no two of which occurred on the same day. As a result of information furnished by *N*, one conviction was obtained. As a result of other information furnished by *B*, an employee of *N*, another conviction was obtained. Subsequently, a third conviction was obtained on the basis of information furnished by *C*, another employee.
- (b) What coverages of the fraud and merchants' bonds are similar?
14. (a) Explain in detail the coverages provided by the crime protection bond, both as to type and limits.
- (b) Compare the reward clause of the crime protection bond and the fraud bond.
15. (a) Explain the meaning of the following terms: bid bond, construction bond, maintenance and supply bond.
- (b) Discuss the surety company's liability in the following:
- (1) The *City of A* advertised for bids for the construction of a building. *B* entered a bid of \$50,000, and before the bid was accepted by the city, *B* filed a bid bond. The bond provided that if *B* was a successful bidder, he would furnish a completion bond within 10 days after notice of award. *B* was notified that he was a successful bidder on June 10. He failed, however, to provide a completion bond, and on July 15 the city advertised for new bids. *C*, who bid \$60,000, was awarded the contract.
  - (2) *X* furnished the government with a Federal construction bond in connection with the construction of a building. During the course of construction, the plans were changed. *X* was unable to complete the construction of the building. A new contractor finished the job, and the extra cost for construction over *X*'s bid was \$20,000. In addition, *X* did not pay \$10,000 for material and supplies to several contractors.
- (c) What bonds may be required from a contractor by an owner of land in connection with the construction of a building?
- (d) Discuss the surety company's liability for the following:

- (1) *A* furnished *B* with a bid bond in connection with a proposal for the construction of a building. *A* bid \$150,000. After the bid was awarded to *A*, *A* refused to proceed with construction. The next higher bid was \$160,000.
  - (2) *C* furnished a contract bond to construct a building for *D*. During the course of construction, *C* failed in business.
  - (3) Suppose that, in the above problem, *D* had assigned his interest in the building to *E*.
  - (e) *F* furnished a labor and material payment bond in connection with a building contract award to *F* by *G*. Discuss the company's liability for the following:
    - (1) *H* obtained a judgment against *F* for \$500 on a note in connection with a personal loan given by the contractor.
    - (2) *I* furnished materials and supplies for the job. However, *F* did not pay *I*. Sixty days after the final delivery of materials had been made, *I* sued *F*.
  - (f) What is the purpose of the dual obligee endorsement of the private performance bond?
  - (g) *S* applied to the *B Surety Company* for a contractor's bond with a penal sum of \$150,000. An investigation disclosed the following concerning *S*: Assets: cash, \$40,000; government bonds, \$10,000; notes receivable, \$30,000; plant and machinery, \$120,000; new supplies, \$6,000; secondhand supplies, \$15,000; good will, \$15,000. *S* has been a building contractor for a period of 20 years and has done many jobs similar to the job for which *S* requested a contractor's bond. At the present time *S* is engaged in ten different building operations. Six of these operations are nearly completed. Explain whether the surety should issue the bond.
  - (h) The *A Surety Company* furnished an annual guarantee bond required by a state for *N*. The state awarded a bid to *N* for \$1,000 to furnish supplies. *N* failed to furnish supplies, and the state obtained the supplies in the open market for \$1,500. Explain the company's liability.
  - (i) *S* gave *N* a check for \$500. *N* lost the check and requested *S* to issue a duplicate check. *S* refused to do so unless he was guaranteed against liability to pay the lost check. How may *N* obtain the guarantee?
16. (a) What is the purpose of the custom house bond?  
(b) Explain the use of the immigrant bond.  
(c) Describe some of the industries that require Federal internal revenue bonds.  
(d) What is the purpose of the public warehouse and grain elevator bond?  
(e) In what circumstances is the surety liable under a commission merchants' bond?

17. (a) *F*, who was a plumber, obtained a plumber's bond. During the course of opening a highway, *C* was injured by *F*'s employee. *C* sued the city. What is the company's liability?
- (b) What are the surety company's obligations under the plumber's bond?
- (c) Explain the use of the auctioneer's bond required by New York City.
18. (a) What factors are considered in the issuance of a public official bond?
- (b) What are the special underwriting problems of the treasurer's and the tax collector's bonds?
- (c) Discuss the advisability of issuing a Federal official bond.
19. (a) *X* was the executor of *Y*'s estate. He furnished the court with a fiduciary bond. During the course of administering the estate, *X* sold railroad bonds, which were part of the estate's assets, for \$18,000. The heirs claimed that the bonds should not have been sold for less than \$48,000. Discuss the company's liability.
- (b) *Y*'s attorney applied to the *C Surety Company* for a bond on behalf of *R*, who was the executor of *Y*'s estate. The assets of the estate consisted of the following items: cash in various savings banks, stocks, bonds, and a manufacturing business. Explain whether the surety company should issue the bond.
- (c) *D*, an attorney, was an executor of *E*'s estate. *D*, who had limited business experience, applied for a fiduciary bond. However, he had an excellent reputation in the community. *E* had a savings account. The savings bank stated that it would not consent that the surety company should have joint control with the executor. Discuss the advisability of issuing the bond.
- (d) *G* had obtained a bond to administer *A*'s estate. Before *G* was prepared to distribute the assets, *H*, one of the heirs, requested that *G* should advance him \$15,000. An analysis of the estate indicated that, when the assets would be distributed, *H* would receive \$50,000. Discuss the right of *G* to grant *H*'s request.
- (e) Various bills amounting to \$50,000 were due to customers of the business. The executors desired to sell the real estate in order to obtain cash to pay the creditors. However, the heirs to the estate claimed that they would suffer a loss of \$20,000 if the real estate was sold at a forced sale. Explain how the bonding facilities of a surety company could be used to prevent the loss.
- (f) Shortly after *L* was appointed the executor of *O*'s estate, *R* offered to buy one of the buildings in the estate for \$80,000. Two real estate appraisers for the estate considered \$60,000 a fair price for the building. How can the surety bond be used to protect all the parties concerned in the estate?

20. (a) Into what types may judicial bonds be classified?  
(b) What purpose is served by the order of arrest bonds?  
(c) Explain the use of the bail bond.  
(d) What is meant by the security for costs bond?  
(e) *M*, who was a plaintiff in an action, obtained a judgment against *N* for \$12,000. *N*'s attorney advised *N* to appeal the case. *N* requested an appeal bond from the *C Surety Company* without furnishing collateral. Also, assume that *M* had lost the case and that *M* desired to appeal the case. *M* also could not furnish collateral. Which of these bonds, if any, should the surety company issue to the respective applicants?
21. *Q*. purchased a fraudulent assigned accounts receivable bond.
- (a) Discuss the company's liability for the following:
- (1) *R* applied to *Q* for a loan and assigned \$2,500 due on open account from *Z*. The fact was that there was actually no money due from *Z*.
  - (2) *D* assigned an account for \$2,500 due from *E* to *Q*. *Q* thereupon advanced the necessary funds to *D*. When the account became due, *D* collected the money and did not remit the funds to *Q*.
  - (3) *F* assigned accounts to the amount of \$3,000 for money due from *C* to *Q*. As *F* collected the money wrongfully, *Q* filed a claim with the insurance company for the amount of \$3,000. In addition, *Q* claimed \$40 for interest and \$20 for service charges.
  - (4) *G* assigned various customer's accounts for \$3,000 to *Q*. *G* collected the funds on January 15, 1947, and did not pay the money to *Q*. The expiration date of *Q*'s bond was December 10, 1947. *Q* discovered the loss on December 20, 1947.
  - (5) Suppose that, in the above problem, the bond had been renewed. The claim was filed with the insurance company. The company paid in accordance with the limitation in the bond. Subsequently *Q* recovered \$1,000 and paid \$175 expenses in order to make the recovery.
- (b) How is the premium determined for the accounts receivable bond?  
(c) After the policy had terminated, the insurance company desired to examine *E*'s books in order to determine the amount of assigned accounts. However, *Q* refused to grant permission. What are the company's rights?  
(d) Describe other forms of collateral upon which loans are made that can be insured under a fraudulent assigned accounts receivable bond.

## CHAPTER 16

### MARINE INSURANCE

**Branches of Marine Insurance.**—When a vessel is sent to sea or a cargo is shipped, there are dangers of loss in connection with the venture. Marine insurance has been developed to meet such of these losses as are occasioned by the hazards of the seas and other perils mentioned in the policy.

Three distinct branches of marine insurance are available to meet, respectively, loss of cargo, hull, and freight charges.

**Form of the Policy.**—Policy forms for marine insurance have not been standardized by statute. The legislatures of this country have not passed laws requiring uniform provisions. The reason for this may be said to be the international competition that exists in connection with this business. This branch of insurance is underwritten all over the world, and to standardize the requirements of the various policies would be difficult. The policies used at the present time have developed from the original policy established at Lloyd's. This organization will be described later in Chapter 23, "Types of Insurance Carriers."

Coverage under the cargo policy is determined by the provisions and modern extensions of the basic policy as modified by endorsements extending or limiting coverage.

**Cargo Policies.**—To meet the various needs of business firms which send a few shipments per year and of those extensively engaged in shipping, three types of cargo insurance policies have been devised, known as the special policy, the open or floating policy, and the blanket policy.

**Special Policy.**—If a business concern makes few shipments throughout the year, a policy may be obtained for each shipment naming the vessel upon which the shipment is to be sent and the limits of the voyage. The following essential information is required by the insurance company before the policy may be issued:

1. Commodity to be shipped.
2. Name of the vessel.

3. Place from where the commodity is to be shipped, and where the commodity is to be delivered.
4. Valuation of the shipment.

**Open Policy.**—If a merchant makes many shipments during the course of a year, the practice is to procure an open cargo policy. Under this form of policy the insurance company agrees to insure all shipments on and after a certain date, subject to certain voyage limitations. Every shipment is covered with the requirement that every one be declared to the insurance company at the time of shipment or as soon thereafter as possible. The policy is usually written limiting the liability of the insurance carrier to a fixed amount for shipments on any one vessel or in any one place at one time. Under this form, if a shipment is at risk before the insured receives advice, the shipment is automatically covered. The only requirement is that the insured notify the insurance company as soon as he receives information concerning the shipment.

The application for the open policy should contain the following essential information :

1. Commodities to be insured.
2. Value of annual shipments, based upon past records of the applicant.
3. Probable maximum amount on any one vessel or in any one place at any one time.
4. Principal countries from which shipments are received or to which shipments are sent.
5. Percentage of shipments to and from the various principal countries.
6. Methods used to pack shipments.
7. Steamship lines used to carry goods.
8. Past loss experience.
9. Coverage desired.

**Blanket Policy.**—This policy is used where many shipments are made by firms engaged in coastwise and inland trade. It is similar to the open policy, except that an estimate is made of the total value at risk during the course of the year. The premium is usually paid in advance. The policy may provide that in case a loss occurs, the limit of liability of the insurance company is reduced to the extent of the loss paid, and an additional premium must be paid in order to restore the insurance company's limit on the policy.

In connection with the purchase of marine insurance, the exporter and the importer consider the following :

1. If the exporter must purchase insurance, how does he send advice to the importer?
2. How is the amount of insurance determined?
3. What protection is given if goods are shipped on deck instead of under deck?

4. What protection is given to the importer if the exporter purchases inadequate insurance?
5. Whether marine coverage is available for mail and aircraft shipments.
6. Whether a separate policy is necessary for the transportation of goods on land to and from the vessel.
7. What perils can be covered?
8. Whether there is coverage for loss due to delay.
9. Whether the loss is to be paid in full regardless of the amount of the loss.
10. What are the essential warranties of the policy, and how are the importer and exporter affected by such warranties?
11. Whether recovery can be had for an amount beyond the limit stipulated in the policy.
12. Whether the insured is permitted to accept a limited bill of lading from the cargo carrier.
13. What is the effect if other insurance is carried?
14. What is the liability for loss of parts of machines or damage to labels, capsules, or wrappings?
15. How is the insured affected by some of the laws of the high seas?
16. Can the insured or his representative make any expenditures after occurrence of loss without the consent of the insurance company?
17. What procedure must be used after loss occurs, and how is the loss settled?

These various problems will be discussed in this chapter.

**Certificates.**—When a merchant obtains an open cargo policy, he may receive a pad of certificates of insurance from the company. Each certificate contains the terms of the open cargo policy. The certificate is therefore, in effect, a special policy covering the particular shipment. When the shipper sends goods to the consignee, he fills in the certificate of insurance referring to the particular shipment. In order to facilitate commerce, the certificate provides that the loss is payable to the order of the shipper who usually endorses it in blank, thus making it negotiable by whoever acquires it for value.

**Valuation.**—Unlike common practice in most forms of property insurance, cargo values must of necessity be determined in advance. Valued policies avoid the possibility of litigation when losses occur. In case of loss, the valuation stated in the policy is the basis upon which the loss is determined. The goods are usually valued at cost or F.O.B. invoice value plus all charges expected to be incurred in sending the goods to destination, including a return on the money outlaid for the venture. Valuation may be expressed in terms of domestic or foreign currency.

The amount of insurance that is required is determined as follows:

1. Cost of the shipment.
2. Extra costs, such as freight, duty, commission charges.
3. An extra amount which represents a possible loss of profits. Frequently the amount used is 10%, although other percentages are also used.

If the policy includes possible loss of duties, a separate amount sufficient to cover the duty or internal revenue must be reported to the insurance company.

**Premium.**—The rate for a specific shipment is fixed in advance. The rate for shipments under an open policy depends upon the vessel, the route, and the nature of the risk. If insurance is carried by the exporter, he must report every shipment to the company. If insurance is carried by the importer, he must report the shipment when he receives it, or as soon thereafter as practicable.

**Bases of Sale of Merchandise.**—Goods sold by an exporter may be shipped on the following bases:

1. Goods will be shipped to the importer, and the latter agrees to pay at some future date.
2. The importer may arrange through his local bank to open a letter of credit payable at a bank at the place where the exporter is in business. The exporter, when he ships goods, presents the invoice for the merchandise, the bill of lading, and the certificate of insurance for the amount of the shipment, to the bank where the letter of credit has been opened and he is paid for the shipment. The invoice, bill of lading, and certificate are then sent to the importer's bank, which in turn gives the invoice, bill of lading, and certificate of insurance to the importer.

Frequently the importer furnishes his own insurance. Consequently the same procedure will be used that is discussed above, except that the exporter will be required to furnish only an invoice and a bill of lading in order to receive payment.

**On-Deck Coverage.**—Shipments may be made on deck without the knowledge of the insured. The bill of lading may provide that the goods are to be shipped under deck, but nevertheless the goods may be stored on the deck. Coverage against this contingency can be obtained by endorsement of the marine policy which provides coverage for all goods shipped on deck without knowledge of the insured, although under-deck bills of lading have been issued by the transporter. The insured must notify the company as soon as practicable after knowledge and pay a premium at rates to be fixed by the company.

Furthermore, if goods are insured under deck but are forwarded on deck without the knowledge of the insured, the company will nevertheless be liable by the endorsement, subject to the provisions of coverage for on-deck shipments. These provisions will be explained on page 386.

The policy covers only goods transported by iron or steel steamers and iron or steel vessels propelled by power. Consequently there would be no coverage for goods transported on sailing vessels, with or without auxiliary power. Cargo on such vessels may be insured under a limited contract.

The policy may not have properly described the vessel, the voyage, or the interest involved, due to unintentional error on the part of the insured. The company nevertheless continues to be responsible for the loss, provided the correct information is reported to the company as soon as the facts are known to the insured. An additional premium must be paid if required by the company.

The cargo policy for an exporter will cover all shipments made by the exporter. Frequently an exporter may be requested by his customer to obtain marine insurance for the customer's benefit. The exporter's policy, therefore, will also cover insurance for others if the exporter has been requested to obtain the coverage. In the latter case, however, the instruction must be given in writing prior to the shipment and prior to known loss or damage.

**C.I.F. Inadequate Insurance.**—Although the purchase may have been made on C.I.F. (cost, insurance, and freight) terms which require the exporter to furnish insurance, the amount of insurance purchased for the benefit of the buyer may be inadequate. Therefore, in respect of shipments purchased on C.I.F. terms or other terms which include insurance, coverage is available protecting the buyer under his own policy for the following :

1. The difference in conditions, if any, between the seller's insurance and the open cargo policy of the importer, but the importer's policy will not be liable for claims recoverable under the seller's insurance.
2. The difference, if any, between the amount insured by or for account of the seller and the amount for which the shipment, if purchased on terms excluding insurance, would be covered under the importer's policy, subject to any special clauses such as "valuation" or "duty" or "freight payable" clauses of the policy if these clauses are applicable according to the terms of the importer's policy. Valuation, duty, and freight clauses will be discussed subsequently.

**Mail and Aircraft Shipments.**—In view of the fact that shipments may be sent by vessel, aircraft, mail, or parcel post, the policy can be written to cover such shipments. Each shipment by mail or parcel post

must be registered or government insured wherever possible. The risk of parcel post is against all risks of transportation from the time the property leaves the premises of the shipper until delivered at the place addressed. However, there is no coverage for the risks excepted by the free of capture and seizure, and strikes, riot, and civil commotion clauses. These clauses will be explained subsequently. Generally there is a specific limit placed on each package shipped by mail or parcel post.

**Limit of Liability.**—The open cargo policy is issued subject to a specified limit of liability on any one ship, for example, \$250,000. If the insured ships more than that amount, as for example, \$300,000, the company is liable in connection with the loss only for the percentage of loss multiplied by the limit of liability of the company. Consequently if a 20% loss should occur, and if the total value of the goods on the vessel is \$300,000, the company's liability would be limited to  $20\% \times \$250,000$  or \$50,000.

Separate limits are also specified for shipments (1) under deck, (2) on deck, (3) by parcel post, and (4) by aircraft.

**Coverage from Port to Port.**—The basic policy provides coverage from the time the merchandise is loaded on board at the port of shipment and continues until the goods are safely landed at the port of destination. If forced by stress of weather or other unavoidable accident, the vessel may sail to and remain at any port or other place without prejudice to the insurance.

**Lighterage.**—At some ports it is impossible for the ocean vessel to enter the port, and therefore goods cannot be loaded directly from the dock or unloaded from the vessel. Consequently the goods must be placed upon a vessel such as a lighter. The lighterage clause extends coverage to include transit by craft, raft, or lighter to and from the vessel. The company will be responsible, although there may be an agreement exempting the lightermen from liability due to loss of cargo. Each lighter or craft used in transferring the commodity is considered as if separately insured for the purpose of applying the average clause. The average clause will be explained on page 383.

**Warehouse to Warehouse.**—At the present time shipments may be made from various parts of this country to the various ocean ports, and then the goods may be shipped to some destination in a foreign country. Although, essentially, coverage is on the cargo vessel, the business world would be handicapped if the shipper were required to obtain separate insurance while on land and also while on sea during the course of delivery to the exporter.

Coverage is therefore available so that the liability of the insurance company commences from the time the goods leave the warehouse and continues during the ordinary course of transit, including customary transshipments, if any, until the goods are discharged overseas from the overseas vessel at the final port. In addition, liability of the insurance company continues while the goods are in transit or are awaiting transit until delivered to the final warehouse at the destination named in the policy, or until the expiration of 15 days, whichever occurs first. If the destination is outside the limits of the port where the goods are discharged, coverage will continue until the goods are delivered at the warehouse, or until 30 days have elapsed, whichever occurs first. For the purpose of determining the time limit, the period is reckoned from midnight of the day on which the discharge overseas of the goods from the overseas vessel is completed.

Protection is thus provided for the goods while on land, on board ship, during transshipment, and while on quays and wharves and in sheds, and on land transportation until the point of destination is reached, and it is therefore unnecessary for the owner of the merchandise to arrange special insurance for the trip from the warehouse to the steamer or vice versa, or to arrange for specified perils such as fire insurance while the merchandise is temporarily stored at some point during the venture. Therefore under the warehouse clause the ocean contract covers every point during the course of delivery while the goods may be considered "in due course of transit."

Due to some unforeseen circumstances, delivery may not be made within the required time limits. Therefore the merchandise will be held covered at a premium to be arranged in the event that the goods must be transhipped or in the event of delay in excess of the time limits. The insured must give prompt notice to the underwriters when he becomes aware of any occurrence for which he is to be held covered under the policy.

While the warehouse clause covers from warehouse to warehouse, coverage can be varied if required. For example, if wool is insured, the policy can be written to cover from the time the wool is taken off the sheep's back until the cargo is delivered at destination.

**Perils Covered.**—The policy covers losses caused by perils of the seas, men-of-war, fires, enemies, pirates, rovers, thieves, jettisons, letters of mart and countermart, reprisals, barratry of the master and mariners, takings at sea, arrests, restraints, or detainments by any kings, princes, or people, and all other perils.

A word of explanation regarding two of the less obvious terms may be helpful. By "jettison," as covered in the policy, is meant throwing

overboard part of the cargo or ship, in order, for example, to move the vessel off strand or to save the vessel from sinking.

Conversion of the goods of others to their own use, or any wilful act of waste against the owner by master or employees of the ship, is termed "barratry."

The words "and all other perils" refer not to *all* perils, but only to perils which are of like kind to those specifically enumerated in the perils clause.

In general, all the perils, as described, may therefore be divided into three groups :

1. Perils of nature or the elements, including fire.
2. Perils arising from the acts of those on board the vessel.
3. Perils arising from the acts of those not on board the vessel.

As the policy is a named peril policy, wherever necessary these perils can further be limited or additional perils can be covered. The following limitations and extensions of coverage will be discussed.

1. War risks clause.
2. Strikes, riot, and civil commotion clause.
3. Theft, pilferage, and nondelivery (including) clause.
4. Theft, pilferage, and nondelivery (excluding) clause.
5. Explosion clause.
6. Land risks clause.
7. Named risks clause.
8. All risks clause.
9. Loss due to delay clause.

**WAR RISKS.**—The policy is modified so that loss due to war risk is excluded. If the insured desires coverage against such war risk, it can be obtained by the attachment of the war risk clause. The principal provisions of this coverage are as follows :

1. The insurance covers against (a) the risk of capture, seizure, destruction, or damage by men-of-war, piracy, takings at sea, arrests, restraints and detentions, and other warlike operations and acts of kings, princes, and peoples, in prosecution of hostilities or in the application of sanctions under international agreement, whether before or after declaration of war and whether by a belligerent or otherwise, including factions engaged in civil war, revolution, rebellion, or insurrection, or civil strife arising from such contingencies, (b) the risk of aerial bombardment, floating or stationary mines, and stray or derelict torpedoes and weapons of war employing atomic fission or radioactive force.
2. There is no coverage for delay, deterioration, or loss of market.
3. The insured cannot abandon the cargo (on any ground other than physical damage to the ship or cargo) until after condemnation of the property insured.

4. There is no liability for any claim for (a) loss of, or frustration of the voyage caused by arrest, restraint, or detainment, or (b) loss resulting from any of the following:
  - (1) Commandeering, preemption, requisition, or nationalization by the government, de facto or otherwise, of a country to or from which the goods have been insured.
  - (2) Seizure or destruction of merchandise under quarantine or customs regulations.
  - (3) Loss caused by collision, contact with any fixed or floating object (other than a mine or torpedo), stranding, heavy weather, or fire, unless caused directly (and independently of the nature of the voyage or service which the vessel is concerned in, or in the case of a collision, any other vessel involved in the collision is performing) by a hostile act by or against a belligerent power. The term "power" means any authority maintaining naval, military, or air forces. (These losses are covered by the marine policy.)
  - (4) Loss or damage caused by or resulting from strikes, lock-outs, labor disturbances, riots, civil commotions, or the acts of any persons taking part in any such occurrence or disorder.
  
5. Liability of the company commences when the goods are loaded on the overseas vessel (meaning that vessel which carries the insured property from one port to another where such voyage involves a sea passage by that vessel), except that for the perils of floating or stationary mines and stray or derelict torpedoes, floating or submerged, the liability of the company commences when the goods are first loaded on craft, lighter, or overseas vessel, after leaving the warehouse at the point of shipment in transit for the destination named in the policy. Coverage ceases when the goods are discharged overseas from an overseas vessel, except that for the perils of mines and torpedoes as described above, the coverage will continue until the goods are finally landed from the overseas vessel, craft, or lighter at the final port or place of discharge. There is therefore no coverage while on land. However, coverage includes transshipment and immediate overland transit if any. If the voyage is terminated at a port or place other than the intended port of discharge through circumstances beyond the control of the insured, the insurance continues until the merchandise is sold and delivered at that port or place. If the merchandise is not sold but forwarded by water to the port of destination or to a substituted destination, coverage continues until the merchandise is landed at the original or substituted destination. The insured must act with reasonable dispatch under all circumstances within his control. If the policy includes shipments by aircraft, coverage will include aircraft, but not truly domestic shipments by

air between points in the continental United States, excluding Alaska.

6. The company will be liable, although there is deviation, over-carriage, change of voyage, or by an error or unintentional mistake in the description of the vessel or voyage, provided the correct information is communicated to the company as soon as known to the insured.
7. The war risk insurance can be canceled by either the insured or the company upon 48 hours written or telegraphic notice to the other party. However, cancellation will not affect any shipment which has been loaded on the overseas vessel prior to the effective date of notice. Shipments which have not been loaded, but for which, prior to the effective date of notice, bills of lading have been issued, and in the case of exports, certificates or special policies have been issued and negotiated, will be covered from the time of loading on the overseas vessels, provided prior to the effective date shipments were at the risk of the insured and were covered under the policy against marine risks.
8. The war risk clause is also subject to the following provisions of the marine policy.
  - (a) Sue and labor as explained on page 392.
  - (b) General average and salvage as explained on pages 390-391.
  - (c) Reporting of shipments and payment of premiums as explained previously.

**STRIKES, RIOT, AND CIVIL COMMOTION CLAUSE.**—The basic policy is modified to exclude loss due to strikes, riot, and civil commotion. However, by endorsement the policy can be made to cover against damage or destruction by strikes, riots, and civil commotion. The coverage also includes damage due to theft, pilferage, breakage, or destruction of the property directly caused by strikers, locked-out workmen, or persons taking part in labor disturbances or riots or civil commotion and destruction of or damage to the property directly caused by persons acting maliciously. However, there is no coverage under the endorsement for loss caused by or resulting from any of the following occurrences :

1. Delay, deterioration, or loss of market.
2. Hostilities, warlike operations, civil war, revolution, rebellion, or insurrection or civil strife arising from any of these causes.
3. Any weapon of war employing atomic fission or radioactive force.

The coverage within the United States, incorporated territories and possessions in the Western Hemisphere, and Canada, includes damage, theft, pilferage, breakage or destruction caused by vandalism, sabotage,

and malicious mischief. This coverage is intended to include losses directly caused by acts committed by an agent of any government party or faction engaged in war, hostilities, or other warlike operations, provided the agent is acting secretly and not in connection with any operations of military or naval armed forces in the country where the property is situated. This extended coverage does not include loss resulting from any of the following :

1. Delay, deterioration, or loss of market.
2. Hostilities, warlike operations, civil war, revolution, rebellion or insurrection, or civil strife arising from such causes excepting only the acts of certain agents expressly covered by this extension.
3. Any weapon of war employing atomic fission or radioactive force.

The endorsement can be canceled by either party within 48 hours by written or telegraphic notice to the other party.

As in the basic policy there are provisions in reference to the following :

1. Sue and labor.
2. General average and salvage.
3. Reporting shipments and payment of premiums.

**THEFT, PILFERAGE, AND NONDELIVERY (EXCLUDING).**—Under special conditions or because of the type of commodity which is being shipped, the company may exclude risk of theft, pilferage or nondelivery. For example, returned and used goods are generally insured free of claim for theft, pilferage, or nondelivery of cargo, unless otherwise agreed before shipment.

“Theft” means the stealing of an entire package. “Pilferage” refers to the stealing of part of the contents of a package. “Nondelivery” refers to goods left on board a vessel or mysterious disappearance.

**THEFT, PILFERAGE, AND NONDELIVERY (INCLUDING).**—As stated above, the risk for these hazards can be excluded by endorsement. However, if necessary the underwriters will include a clause to cover the risk of theft and also pilferage as well as nondelivery. This coverage is often required for shipments of clothing, rugs, piece goods, and other articles which are useful and easily sold by thieves.

The risk of nondelivery is subject to the following conditions : (a) In the event of nondelivery or loss during transit of any package through the fault of the carrier, the company is liable for the difference between the insured value of the goods and any amount which the insured may be entitled to recover under the bill of lading ; (b) the extent of the com-

pany's liability is not changed by any clause in any bill of lading whereby the liability of the carrier is limited to a specified amount.

**EXPLOSION CLAUSE.**—Loss due to explosion of boiler is not necessarily a peril of the sea, since such loss can occur on land or sea. However, by the use of the explosion clause, the company will assume liability through the bursting of boilers. In addition, under this clause the company will assume liability for breakage of shafts or any latent defect in the machinery, hull, or appurtenances, or from the faults or errors in the navigation or management of the vessel by the master, mariners, mates, engineers, or pilots. However, this clause does not include loss arising due to delay, deterioration, or loss of market unless such peril is specially covered.

**LAND RISKS CLAUSE.**—When the policy covers the risk on railroad, dock, wharf, quay, or elsewhere on shore, as provided by the warehouse to warehouse clause, the perils are extended on land to include fire, lightning, collision, derailment, cyclone, hurricane, earthquake, flood, or other accident to the conveyance or by collapse or subsidence of docks. The company's liability for losses on shore is not subject to any average clause such as free of particular average clause, although made part of the policy. Average clauses are explained on subsequent pages.

**NAMED RISKS CLAUSE.**—Merchants desire wider protection from the general losses of cargo during shipment than is included in the general perils of the sea clause. Therefore the policy can be extended by the attachment of a named risk clause to meet the needs of particular shipments of various commodities. For example, the clause can provide coverage for partial loss due to contact with fresh water, fuel oil, other cargo, and steam and sweat of hold. Another illustration of this clause is in connection with the shipment of commodities such as rugs, where the perils include heat, sweat, mold, and hook-holes.

**ALL RISKS CLAUSE.**—An analysis of the various clauses added to the basic policy indicates that the policy can be extended to cover various perils in addition to those covered by the basic named perils policy. Very wide coverage can be obtained by the attachment of the all risk clause.

The effect of this clause is to extend coverage to include all risks of physical loss or damage from any external cause, irrespective of the percentage of loss. This clause does not include those risks excepted by the free of capture and seizure, strikes, riots, and civil commotions clauses described in this chapter unless specifically provided.

Some commodities, although covered against all risk, are subject to limitations. For example, bulk oil and gasoline are not covered for

contamination or leakage. In addition, as there is an expected loss of bulk, the policy is written subject to a deductible average clause. The use of the deductible average clause is explained on pages 386-387.

**LOSS DUE TO DELAY.**—The company is not liable for loss of market or damage or deterioration resulting from delay, whether or not caused by a peril covered by the policy.

While loss due to delay generally is not covered, nevertheless there may be serious damage due to delay in such shipments as foodstuffs. By endorsement, coverage against such loss can be obtained. A typical example of a delay clause provides coverage against all risk of physical loss or damage from any external cause, regardless of the amount of loss arising during transportation between the points of shipment and destination named in the policy subject to the following:

(1) The company is liable for all damage to or deterioration of the commodity insured consequent upon (a) the vessel's being disabled and thereby being delayed; (b) caused by breakdown or derangement of machinery, rudder, sternpost, refrigerating machinery or plant or insulation; (c) occasioned by latent defect of refrigerating machinery or negligence of refrigerating engineers or other employees; and (d) damage or deterioration resulting from a general average act.

(2) No claim will be paid unless the delay or breakdown or derangement of machinery, refrigerating machinery, etc., lasts 24 consecutive hours.

**Average Clause.**—Since the goods may be lost during the course of transportation in various parts of the world, the company may deem it inadvisable to make investigations of small losses, and thus avoid the cost of settling such claims. The basic policy provides that there will be no responsibility for any partial loss or particular average loss unless amounting to, say, 5%. Thus the insurance companies may limit the minimum amount for which they may be responsible in a partial loss. A partial loss of a particular interest of a cargo owner which occurs from one of the perils designated in the policy, such as damage by sea water, is called a "particular average loss."

**Memorandum Clause.**—As stated above, the company does not assume liability for loss unless in excess of 5%. There are certain commodities which are easily susceptible to large losses, however, and liability is further restricted by the memorandum clause of the basic policy. The clause restricts the liability of the company on certain articles or types of articles, and excludes losses due to certain causes. The clause usually sets forth the conditions under which various and sundry articles will be covered, thus making the policy applicable without endorsement to almost any risk.

The clause provides that the following articles are warranted by the insured free from average, unless constituting a general average loss, which is a sacrifice voluntarily made in order to save the entire venture from destruction: dried beef, hams, bacon, firecrackers and other fireworks, saltpeter, hops, guano, rice, peas and beans, mats and matting, hay, flaxseed and seeds of all kinds, bleaching powders, soda ash, bicarbonate of soda, sal soda, cream of tartar, burlaps, shoddy, floorcloths, straw goods, iron of all kinds, wire of all kinds, tin plates, nails, steel, and steel rails, madder, sumac, wicker and willow ware (manufactured or otherwise), salt, grain of all kinds, tobacco, Indian meal, fruits (whether preserved or otherwise), cheese, dried fish, vegetables and roots, dyewoods of all kinds, mahogany and other woods, hempen yarn, bags, cotton bagging and other articles used for bags or bagging, pleasure carriages, household furniture and all house-furnishing articles, skins and hides, bristles, Tampico grass, musical instruments, looking glasses, and all other articles that are perishable in their own nature. In addition the insured warrants (a) hemp, flax, tobacco stems, cassia (except in boxes), and oil cake free from average under 20%, unless general average; (b) sugar and bread under 7%, unless general average; (c) coffee in bags or bulk, pepper in bags or bulk, and cassia in boxes, under 10%, unless general average. The term "general average" will be discussed subsequently.

The company is not liable for losses from dampness, change of flavor, or becoming spotted, discolored, musty, or mouldy, except as a result of actual contact of sea water with the articles damaged, occasioned by sea perils. In the event of partial loss by sea damage to dry goods, cutlery, or other hardware, the loss is ascertained by a separation and sale only of the portion of the contents of the packages so damaged. In so far as possible, the same practice is followed for all other types of merchandise.

Although the memorandum clause is present in the policy, it is frequently not used, since the practice is to adapt the policy by special clauses for the commodity or class of commodity to be insured. Special clauses will be discussed in this chapter.

**Leakage Clause.**—In view of the hazard during transportation, the policy provides that the company is not liable for leakage of molasses or other liquids unless occasioned by stranding or collision with another vessel. However, by endorsement coverage will include leakage however caused, regardless of amount of loss, subject to a deduction of, for example, 3%.

**Breakage Clause.**—Commodities such as fragile articles may be covered subject to the following limitations:

Free of claim for loss by breakage unless caused by stranding or collision with another vessel.

However, the limitation can be avoided by endorsement. The breakage endorsement may provide that coverage includes the risk of breakage howsoever caused, regardless of amount of loss, subject to a deduction of, for example, 5% on each package separately insured.

**Free of Particular Average Clause.**—As explained previously, the basic policy provides that partial losses will not be paid if amounting to 5% or less. In view of the fact that some commodities are susceptible to large percentages of damage, the companies may apply the memorandum clause to such commodities as, for example, hemp, which is subject to a 20% average clause. The insurance company may desire to limit its liability for certain commodities to loss due to a few serious perils. This is accomplished by the use of the "F.P.A. clauses." Two forms are used: the English clause and the American clause. Under the English clause, the company is not liable for any particular loss unless the vessel is stranded, sunk, burned, on fire, or in collision with another vessel. Under the American clause there is no liability unless the loss is caused by stranding, sinking, burning, or the vessel be on fire or in collision with another vessel. The difference between these two clauses can be illustrated by the following example. Assume that a vessel is damaged during a storm and that the cargo is damaged to the extent of \$200. Subsequently the vessel collides with another vessel and the cargo is again damaged in the amount of \$1,000. Under the English clause the company would be liable for \$1,200, since an event occurred during transportation which opened the warranty, that is, collision with another vessel. Under the American clause, however, the company would be liable for \$1,000 only, that is, limited to the loss resulting from collision with another vessel.

Sometimes the F.P.A. limitations are amended and certain perils are also covered, such as theft, pilferage or nondelivery, or contact with other cargo, thus changing the original coverage of the perils of the clause.

As these clauses provide very restricted coverage, they are not very common, though they are used to insure very hazardous commodities or to meet special conditions. For example, fruits and fresh vegetables are insured under the F.P.A. clause. Meats are also insured free of particular average. Incidentally, as stated previously, if the meats are shipped on a vessel provided with refrigeration, protection is available against loss due to the breakdown of the refrigerating or the propelling machinery of the vessel.

**Goods on Deck.**—Certain commodities, such as acids, cannot be shipped under deck, but must be shipped on deck. In view of the great hazard, shipment of the goods on deck is subject to the free of particular average clause; that is, there is no liability unless the loss is caused by the stranding, sinking, burning, or collision of the vessel, craft, or lighter. In addition, loss of the whole or part of the cargo caused by jettison or washing overboard is also included. No other risks are covered on goods so laden, unless specifically insured as applying to shipments on deck. Although the loss may not be a total loss, damage will be paid for the partial loss of goods on deck irrespective of any average percentage clause attached to the policy.

The company's liability for losses from these causes is limited to a stated amount unless otherwise provided. The insured must make separate declarations to the insurance company for shipments of goods laden on deck.

**"With Average" Clause.**—A merchant may ship many cases of merchandise as, for example, 500 cases, with a total insurance value of \$200,000. If the policy was written subject, for example, to a 3% average clause, the company would not be liable unless the loss was in excess of \$6,000. The liability of a company can be increased by providing that the average clause applies separately to each shipping package. Under such circumstances, if one package of the lot valued at \$5,000 suffered a 5% damage, that is, \$250, the company would be liable, as the loss was in excess of 3% of the value of the package.

Sometimes a policy which is written with the F.P.A. clause is also subject, in addition, to the average clause as, for example, 3%. As stated previously, additional perils may be added to the F.P.A. clause, such as pilferage, theft, and nondelivery. If the intention is to exclude the 3% average clause from the extra coverage, the latter should be written irrespective of percentage. Otherwise the extended perils will also be subject to the 3% average clause.

**Average Irrespective of Percentage Clause.**—Many shippers desire insurance under which the company will pay any loss regardless of amount. This is accomplished by the use of a clause providing average irrespective of percentage. If this clause is attached to the policy, the company is liable for the loss regardless of the percentage of loss.

**Deductible Clause.**—Instead of an average clause, the company may require a deductible clause. For example, in order to limit the liability against small losses when clauses such as breakage or leakage are used, an endorsement may be attached providing for a deductible average of, for example, one half of 1% of the value of each shipping package.

Another illustration of the deductible clause is the limitation for commodities shipped on deck. As the rate for a commodity shipped on deck is higher than if shipped under deck, the insured can obtain a reduced rate if he agrees to suffer a stipulated percentage of loss as, for example, 10% for cargo while on deck transported by any one vessel at any one time. The difference between the average and deductible clauses is that the insured collects in full if the loss is over the average percentage, whereas the insured never collects in full if a deductible clause is used.

**Warranties.**—Three fundamental warranties which apply to the marine policy are the following :

1. Seaworthiness of the vessel.
2. Deviation.
3. Illegal venture.

**SEAWORTHINESS.**—The vessel transporting the cargo must be seaworthy. However, the shipper of cargo ordinarily would be unable to know whether or not the vessel is seaworthy. The policy therefore provides that the company admits that the vessel is seaworthy as between the shipper and the insurance company.

**DEVIATION.**—A cargo owner generally has no control over the movement of the vessel transporting his goods. Consequently it would not be proper to make him responsible if the master of the vessel should change the route agreed upon. By the attachment of the deviation clause, the insurance of the cargo owner is not voided despite change or deviation of voyage or other variation of the risk by reason of the exercise of any liberty granted to the ship owner or charterer under the contract of affreightment, or as a result of error or omission in the description of the interest, vessel, or voyage.

**ILLEGAL VENTURE.**—Cargo that is being shipped may consist of articles that are intended for illicit or prohibited trade. The policy provides that the company is not liable for loss in consequence of seizure or detention of articles on account of any illicit or prohibited trade, or which are regarded as contraband of war.

During the course of transportation, the following contingencies may occur :

1. There may be deviation or change in voyage or interruption or other variation of the voyage or risk.
2. There may be delay in the delivery of the goods.
3. The goods may be transhipped by another vessel.

In order to meet these conditions, three clauses are used which provide for continuation of the insurance until the goods are no longer at the

risk of the insured. These clauses are the deviation clause, the delayed delivery clause, and the transshipment clause.

*Deviation Clause.*—As stated previously, although there may be a change in the route of the vessel after leaving port, nevertheless the company continues to be responsible. However, the insured may be required to pay an extra premium charge.

*Delayed Delivery Clause.*—Sometimes goods that are shipped to a particular port may not be unloaded at the port of destination, as the captain of the vessel may deem it impracticable to do so. Consequently, part of or the entire cargo will be carried beyond the point of destination. In order to protect the cargo owner, coverage is provided under such circumstances. In the event that the goods, either wholly or in part, are discharged short of or carried beyond the port of destination, the company will continue coverage until final arrival and delivery of the goods at their proper port of destination and delivery. Written notice must be given the company as soon as known and an additional premium paid if required.

*Transshipment Clause.*—By this clause the company is liable for the goods shut out or transferred to another vessel, provided written notice is given to the company as soon as known to the insured, and an additional premium is paid if required.

**Cumulation of Shipments.**—By reason of interruption of transit or other occurrence beyond the control of the insured, or by reason of any casualty at the shipping point or on a connecting steam conveyance, there may be an accumulation of cargo belonging to the insured and the value may exceed the limit of liability as stated in the policy. Under such circumstances the company will cover the excess amount, provided written notice is given to the company as soon as the facts are known to the insured. However, the company will not usually assume liability for more than double the limit of liability as stated in the policy.

**Carrier.**—A transporter of goods is subject to full liability for all causes except several, such as “acts of God.” Consequently the policy provides that there is no coverage for loss of merchandise in the possession of any carrier or other bailee who may be held liable for loss or damage to the cargo. Furthermore, merchandise must not be shipped under a bill of lading which contains a stipulation that the carrier can have the benefit of the shipper’s insurance. Such stipulation will free the company from liability.

**Bill of Lading Negligence or Latent Defect Clause.**—Goods may be shipped under a bill of lading with a negligence clause or latent defect

clause. These clauses exempt the vessel owner or charterer from liability for loss or damage to goods, although the loss was due to the carrier's negligence or the vessel's being unseaworthy. Nevertheless the insurance company assumes liability for loss of merchandise.

**Payment If Bailee Does Not Pay Loss.**—The carrier or bailee who may be responsible for the loss may refuse to pay the loss. If the carrier or bailee denies or fails to meet the liability, the company agrees to advance to the insured the amount of the company's liability as a loan without any interest charge. The repayment of the advance is made by the insured only to the extent of any recovery which the insured may receive from the carrier or bailee.

The insured must commence suit with diligence to enforce his claim against the carrier or bailee. The suit must be brought under the direction and control of the company. The company will pay the proportion of the cost and expenses of the suit which the amount advanced bears to the entire amount of the loss.

**"Both to Blame" Collision Clause.**—A bill of lading may contain a clause which provides that if the shipowner has exercised due diligence to make the vessel seaworthy and properly manned, equipped, and supplied, then if the vessel comes into collision with another vessel as a result of negligent navigation of both vessels, the owners of the cargo carried will indemnify the shipowner against liability to the other or noncarrying vessel or recovered by the other or noncarrying vessel or her owners as part of their claim against the carrying vessel or shipowner. Under this clause, if the vessel carrying the insured cargo collides with another vessel, payment must be made jointly by the cargo and vessel owners involved in the collision. Under such circumstances "the both to blame provision" provides that the company will indemnify the insured to the extent of the loss for an amount for which the insured is legally bound to pay to the shipowner. If liability is asserted by the shipowner, the insured must notify the company. The latter can defend the insured against the claim at the cost and expense of the company.

**Other Marine Insurance.**—The insured may carry coverage with another company. In case of loss, if other insurance on the cargo antedates the policy, the issuer of the latter is liable only for that amount not covered by the older policies. When, on the other hand, other insurance is taken subsequent to the date of the policy, the issuer of the earlier policy is liable for the full amount of the policy without right of contribution from subsequent issuers. Insurance purchased on the same day (which is called "simultaneous insurance"), however, limits each company's liability to that proportion of the loss which its policy bears to total simultaneous insurance.

**Other Perils Insurance.**—The insured or some bailee may specifically insure the cargo against a peril, such as fire, during transportation on land. In that event the company is not liable to the extent that there is any other fire, inland marine, sprinkler leakage, burglary, or any other form of insurance except ocean marine insurance provided by the insured, any carrier, or other bailee which would attach, at the time of the loss, if the marine policy had not been issued. Nevertheless the company will assume liability for its proportion of any loss for which it would be liable in the absence of these clauses to an amount not recoverable from third parties if the marine insurance did not exist, and for its proportion of expenses incidental to the loss.

Certain commodities present special problems after damage. The fact that part of a machine was damaged, or that labels on packages were destroyed or damaged, may cause the insured to request payment on the basis of a total loss. However, such losses are handled in the ways described below.

**MACHINERY CLAUSE.**—If a part of a machine was damaged, the owner may desire to abandon the machine to the company and claim the loss of the entire machine. Therefore the policy provides that the company is responsible only for the damaged part of the machine. In addition to liability for the cost of the damaged part of the machine, the company is also liable for the cost of transportation of the new part and the cost of installing the new part on the machine.

**LABELS, CAPSULES, WRAPPING.**—If the policy covers labels, capsules, or wrappers, the company's liability is limited to an amount sufficient to pay for the cost of new labels, capsules, or wrappers and for reconditioning the goods. There is a possibility, in the case of merchandise which is branded, that the loss of labels on cartons may result in practically the total loss of the value of the merchandise. For branded merchandise, the company may agree to sell the merchandise for the benefit of the shipper and agree to pay the shipper the difference between the amount realized and the insured value of the commodity.

**Laws of the High Seas.**—There are two laws of the high seas, that is, general average and salvage, which make the shipper of goods responsible without considering insurance. If there is insurance, the company will pay in proportion to the amount of insurance and the value of the cargo.

**General Average and Salvage Charges Clause.**—During the course of a voyage, a loss may be suffered to save the vessel and the cargo. For example, a part of the cargo may be jettisoned, that is, thrown overboard

to lighten the ship in distress to save the venture from disaster. This type loss is designated as a "general average loss." Since this sacrifice may prove beneficial to the owners of ship and cargo and those entitled to freight revenue by law and independent of insurance, the parties benefited must contribute toward the payment of the loss.

Furthermore, in the marine field there is a law independent of insurance which establishes the right of anybody who saves a distressed or abandoned vessel to claim salvage. General average and salvage charges are covered by the cargo policy. Since shipments are made to various countries, standards for this settlement of general average and salvage charges have been developed on an international basis. Settlement of loss is made in accordance with Foreign Statement, or in accordance with York-Antwerp Rules.

**Requirements for General Average Loss.**—As stated previously, general average losses are covered by the policy. A general average loss is valid, however, only when the following requirements are met :

1. The sacrifice made must have been voluntary and necessary.
2. The result of the sacrifice must have been successful; that is, the venture must have been saved from the threatened disaster. The following procedure is used in settling a general average loss : When the vessel arrives at a port, a personal bond must be furnished by everyone who would have to contribute to cover the possible charges that may be made in the adjustment, or a cash deposit is required, or in some cases the adjusters will accept the guaranty of the insured's marine insurance company.
3. Adjusters, usually appointed by the owner of the vessel, make a valuation of all the interest that has been saved.
4. Contribution is based upon the following considerations :
  - (a) The value of the vessel is the value at the port of arrival, minus any expenses that have been incurred in connection with repairs since the loss occurred.
  - (b) The goods are valued at the wholesale price at the point of destination, in their present condition, after deducting landing expenses and any charges which are payable to make the goods marketable.
  - (c) The value of the freight is obtained from the bills of lading or charter party.

The adjuster determines the loss by making a survey of the ship and the goods. After the amount of loss through the general average sacrifice has been determined, the owner of the ship, the cargo, and the freight revenue must then contribute in proportion to the respective values. The following is a theoretical example of a general average loss :

	Valuation
Vessel .....	\$ 500,000
A's Shipment .....	50,000
B's Shipment .....	200,000
C's Shipment .....	100,000
D's Shipment .....	145,000
Freight Revenue .....	5,000
	\$1,000,000

Goods belonging to A, amounting to \$10,000, were thrown overboard. These goods were sacrificed in order to save the vessel from sinking. The loss would be adjusted as follows:

Total value of vessel, goods, and freight. ....	\$1,000,000
Valuation of goods lost.....	10,000
Percentage of loss.....	1%

Contribution to this loss would then be as follows:

	Value of Property	Amount Contributed
Vessel .....	\$ 500,000	\$ 5,000
A's Shipment.....	50,000	500
B's Shipment.....	200,000	2,000
C's Shipment.....	100,000	1,000
D's Shipment .....	145,000	1,450
Freight Revenue .....	5,000	50
	\$1,000,000	\$10,000

The general average adjustment is entirely independent of insurance. Whether the shipowner or shippers were insured or not they must contribute to all general average losses. The general average costs that may be awarded against a shipowner or cargo owner are covered by the marine insurance policy in the absence of a restrictive clause.

**Sue and Labor Clause.**—During the course of a voyage, some part of the cargo may be damaged. The insured or his agent should attempt to minimize the damage. For example, suppose a shipment of clothing was damaged by an insured peril. In order to avoid further loss, assume that the goods had to be hauled to a warehouse in order to be dried and repacked. The expenses, if reasonable and properly incurred, are recoverable under the sue and labor clause. The purpose of the sue and labor clause is to cover any expenses which were incurred in order to preserve the property of the insured from further damage caused by a peril covered by the policy. The sue and labor clause is a distinct agreement, and the company's liability is in addition to the liability for the loss or damage of the cargo. The clause requires that in the event of any loss or misfortune, the insured, his factors, servants, and assigns are required to

sue, labor, and take other steps to defend, safeguard, and recover the property. Although the insured is required to protect and recover the property, this clause does not give authority to the insured to abandon the property or hold the company responsible if the company has a defense against the insured.

**Notice of Loss.**—After the merchandise is received by the consignee, he may make a claim for damage. Under such circumstances he must report the loss to the claims agent of the company. A list of the names and addresses of the company's agents at various points is given on the back of the insurance certificate. The duty of the agent is to determine the percentage of loss, if any, and he is empowered to pay the amount of the loss to the consignee.

If the policy includes the duty clause and loss is sustained, at the request of the company the insured must surrender any portion of the damaged merchandise to the customs authority and recover the duties on such goods, as provided by law. Under such circumstances the claim will be for total loss of the proportion of the merchandise. The reason for this request is due to the opinion of the company that the amount of salvage recoverable may be less than the amount of duty that would have to be paid for the damaged merchandise.

**Abandonment.**—The insured cannot abandon the property in case of capture, seizure, or detention, until after condemnation of the cargo or until a stipulated period after notice of condemnation is given to the company. In case of blockade, he must not, similarly, abandon the cargo, but is at liberty to proceed to an open port and there end the voyage.

**Settlement of Loss.**—As stated previously, the insurance companies generally do not desire to determine the valuation at the time of loss, and therefore goods are insured on a valued basis. If the loss is total, the company will pay the amount of insurance stated in the certificate. If the loss is partial, the percentage of damage is determined. This percentage is multiplied by the amount of insurance. Of course, if the amount of insurance is inadequate, the insured will not be reimbursed for his actual loss.

In order to illustrate the settlement of a loss, suppose that the invoice cost of the shipment is \$4,000, and, in addition, \$500 was added for freight insurance and other charges. Assume that the goods were received in a damaged condition and that the percentage of damage was 25%. As the amount of insurance was \$4,500, the insurance company would pay  $.25 \times \$4,500$ , that is, \$1,125. Unlike the fire insurance policy, the amount of damage is not determined by replacement value but by ascertaining the percentage of damage.

**Payment of Loss.**—The loss must usually be paid within 30 days after the insured files his proof of loss and proves his interest in the cargo. The amount of any unpaid premium, and any other indebtedness of the insured due to the company, will be deducted prior to the payment of the loss. If the loss is payable to a bank, the full amount of the loss will be paid without deduction for unpaid premiums or other indebtedness.

**Subrogation.**—As in other policies, the company must be subrogated to all rights of the insured arising out of the loss or damage.

**Hull Policies.**—The following essential information is required before a marine insurance policy is issued on a hull:

1. Name of the vessel.
2. Description of the vessel.
3. Survey of the vessel, that is, the report giving details concerning the seagoing condition of the vessel.
4. The trading route of the vessel.
5. The types of commodities carried by the vessel.

Hulls are insured either for a specified period of time or for a voyage. Generally the provisions of hull policy forms are similar. In order to meet varying conditions, however, special types of policies have been developed for such craft as tugs, yachts, barges, and vessels on the Great Lakes. Policies are also issued to cover the risk attendant on vessels when they are laid up in port.

**Freight Revenue Policy.**—If a ship or cargo is damaged or lost, there may be a loss of revenue chargeable for carrying the cargo. Protection against this loss is provided by a freight policy. If a ship is under charter, the charterer must obtain such a policy. If the freight is paid in advance by the shipper, he should protect himself by including the charges in his cargo policy.

**Protection and Indemnity Insurance.**—When one vessel collides with another vessel or with a dock, the liability of the owner of the ship causing the collision may be covered by a collision clause in the hull policy. Partial protection against property damage, loss of life, and personal injury not covered by the collision clause of the hull policy may be obtained by protection and indemnity insurance. This subject will be discussed again in this chapter.

**Builders' Risk Policy.**—Concerns engaged in the construction of ships are faced with such serious hazards as fire and breakage of ways. Similar hazards occur while hulls are being repaired. The builders' risk policy provides protection against these risks.

**Premium Charges.**—The premium charges in marine insurance are based to some extent upon judgment founded upon experience. Scientific development of a standard tariff, such as obtains in the case of fire insurance, is impractical. Fire insurance rates are generally subject to state regulation; for, in order that a fire insurance policy may be legally issued in any state, the company must obtain permission to do business in that state. In the case of marine insurance, however, since hulls navigate all over the world, the cargo owner and hull owner can obtain insurance at any port they desire. The companies writing the policies may not be within the jurisdiction of the state, and hence beyond state regulation. Furthermore, international competition militates against the development of a standard rate. There are, nevertheless, certain fundamental considerations.

**Cargo Rates.**—The following factors are considered in determining the rates for the cargo:

1. Susceptibility of the commodity to damage.
2. Nature of packing.
3. Dangers of the route.
4. Character of the vessel.

**Hull Rates.**—The following factors are considered in determining the rate for a hull:

1. The owner's past record on the high seas.
2. Danger of the route. In order properly to determine the rate, the danger of fog, storms, low water, ice, and other dangers that may be encountered on the high seas must be considered.
3. Kind of cargo to be carried. Certain cargoes are more hazardous than others.
4. Fitness of the vessel for the trip. Whenever a vessel is constructed, the owner of the vessel is concerned with the future rating of his property. The marine insurance companies use registers prepared by bureaus classifying vessels. These registers contain information concerning the construction of the vessel, which, in turn, will determine the fitness of the vessel for any trip to be undertaken.
5. The length of the voyage.

**Yacht Insurance.**—There is a growing interest in pleasure craft, such as yachts and motorboats. (Coverage for motorboats will be discussed in Chapter 17, "Inland Marine Insurance.") The owner of a yacht should obtain insurance protection against the following hazards:

1. Loss of the yacht and its equipment.
2. Damage to the property of others caused by negligence for which the owner of the yacht is responsible.

### 3. Death or injury of persons caused by negligence for which the owner of the yacht is responsible.

The yacht is insured against loss to hull, spars and sails, tackle apparel, machinery, boats, and other furniture of and in the yacht. Coverage is provided against loss caused by the perils of the seas, fires, collisions, pirates, thieves, barratry of the master and mariners, and all other like perils.

The policy also covers the loss of or damage to the hull or machinery (1) through the negligence of the master, mariners, engineers, or pilots; (2) through explosions, the bursting of boilers, the breakage of shafts; (3) through any latent defect in the machinery or hull, provided the loss or damage did not result from want of due diligence by the owner of the vessel or by the manager.

If the value of the yacht is less than \$5,000, losses up to \$25 are not covered. If the loss amounts to \$25 and over, however, the full amount of the loss will be paid. Coverage is limited while the yacht is used for private pleasure purposes only. By endorsement, the yacht can also be chartered to responsible individuals provided the yacht is used for private pleasure purposes only.

Under the policy there is no coverage for loss or damage to spars, or sails while racing. This exclusion for spars and sails (except spinners), however, can be eliminated by endorsement upon payment of an additional premium. For boats which are capable of the speed of 25 miles per hour and over, there is no liability for loss or damage to the rudder, propeller, shaft, or machinery unless the loss or damage is caused by stranding, sinking, burning, or collision with another vessel. This endorsement is added to the policy in order to eliminate the usual types of loss which occur to such boats, caused by striking driftwood or submerged objects. In addition, there is no liability for loss due to strikes, lockouts, political or labor disturbances, civil commotions, riots, martial law, military or usurped power or malicious act and capture, seizure, arrest, restraint or detainment, or the consequences thereof or of any attempt thereat, or any taking of the vessel, by requisition or otherwise, whether in time of peace or war and whether lawful or otherwise; also, all consequences of hostilities or warlike operations (whether there be a declaration of war or not), piracy, civil war, revolution, rebellion, insurrection, or civil strife arising from such acts. By endorsement, loss due to strikes and riots, war risks, and malicious mischief may be obtained.

The policy covers while the yacht is in port and at sea, in docks and graving docks, and on ways, gridirons, and pontoons. The yacht can

be sailed with or without pilots, tow and be towed, assist vessels or craft in all situations, and go on trial trips.

The insured may have occasion to store furniture and other boat equipment on shore during the lay-up period. Under such circumstances the policy covers any part of the furniture, tackle, boats, or other property of the yacht separately stored on shore during any portion of the period of the policy. However, the liability on the hull and appurtenances on board will be decreased by the proportionate insured value of the property thus separated. The policy covers such property on shore, limited to 20% of the total insurance. If necessary, coverage in excess of 20% is available.

The yacht may be at sea when the policy period is terminated. Under such circumstances the insurance may be continued until the arrival of the yacht at the port of destination on being moored therein 24 hours in good safety, provided notice is given to the company and additional premium paid as required. Similar to other marine insurance policies, there is a provision concerning sue and labor.

If the vessel comes into collision with any other ship or vessel, and the insured becomes liable to pay any sum or sums not exceeding in respect of any one collision the value of the vessel, the company will pay the insured the proportion of the sum so paid as the amount insured bears to the value of the vessel insured. If the liability of the insured vessel has been contested with the consent in writing of the company, then the company will also pay a like proportion of the costs of the suit. When both vessels are to blame, then, unless the liability of the owners of one or both vessels becomes limited by law, claims under the collision clause will be settled on the principle of cross liabilities, as if the owners of each vessel had been compelled to pay to the owners of the other vessel one-half or other proportion of the latter's damages as may have been properly allowed in ascertaining the balance or sum payable by or to the insured in consequence of the collision. The principles involved in this clause also apply to the case where both vessels are the property, in part or in whole, of the same owners.

The collision clause does not extend to any sum which the insured may become liable to pay for (a) removal of obstructions under statutory powers; (b) for injury to harbors, wharves, piers, stages, and similar structures, due to the collision or in respect of the cargo of the insured vessel; (c) for loss of life or personal injury.

**PORT RISK INSURANCE.**—The owner of the vessel may not desire to use the yacht, but he may keep the ship in port. Port risk insurance is available, covering the yacht while the vessel is laid up and out of commission at a certain named location during the entire policy period.

**PROTECTION AND INDEMNITY INSURANCE.**—Yacht policies provide coverage for collision with another ship under the running down clause of the policy. As stated previously, however, there is no liability for damage which may be caused by the boat to property of others, such as damage to docks, or goods on board, or freight, or due to negligent operation of the boat which may cause personal injury or loss of life. As explained previously, protection against such loss can be obtained by attaching the protection and indemnity clause to the policy.

Under the protection and indemnity clause, the company agrees to pay

1. Property damage for loss of or damage to any other ship or boat or goods, merchandise, freight, or other things or interests on board the other ship or boat, caused proximately or otherwise by the ship insured insofar as the loss is not covered by the running down clause of the hull policy.
2. Loss of or damage to any goods, merchandise, freight, or interests whatsoever other than as covered above, whether on board the ship or not, which may arise from any cause whatever.
3. Loss or damage including goods or property on the following: harbor, dock (graving or otherwise), slipway, way, gridiron, pontoon pier, quay, jetty, stage, buoy, telegraph cable, or other fixed or movable thing, howsoever caused.
4. Loss or damage due to any attempted or actual raising, removal, or destruction, or the wreck of the ship or the cargo of the ship, or any neglect or failure to raise, remove, or destroy the ship or cargo.
5. Personal injury, that is, loss of life or personal injury and payments made on account of life salvage. The company's liability for personal injury is subject to a limit of liability for one person and a maximum limit for more than one person injured in one accident or series of accidents arising out of the same event (limits will be discussed again in Chapter 18, "Miscellaneous Liability Insurance.")
6. The costs of any defense if the liability of the insured has been contested with the consent of the insurance company.

The policy excludes liability for any claim arising directly or indirectly under the Federal Longshoremen's and Harbor Workers' Compensation Act. The yacht policy can be endorsed without extra charge to include the necessary workmen's compensation coverage under the Federal act.

**MEDICAL PAYMENT COVERAGE.**—By endorsement to the protection indemnity coverage, the company will assume liability for a stipulated

limit for the payment of medical charges for each person who may be injured, regardless of the negligence of the owner. The coverage is also subject to an aggregate limit in any one accident regardless of the numbers of persons involved. Medical payments will be discussed again in Chapter 18.

**RATES FOR YACHTS.**—Factors which determine the premium charge for the yacht are as follows: (1) valuation, (2) age, (3) motor equipment or no auxiliary power, (4) cruising limits, (5) period while in commission.

Rates are based upon two cruising limits. These cruising limits are (1) coastwise and inland waters between Eastport, Maine, and Cedar Keys, Florida; (2) Great Lakes and tributaries including the St. Lawrence River and tributaries not below Quebec. For yachts written with Eastport-Cedar Keys limits, coverage can be extended to include the waters of the Great Lakes and St. Lawrence River, not below Quebec, without additional premiums. Premiums for the Eastport-Cedar Keys range depend upon the period for which coverage is granted, that is, full-year navigation or six months' navigation. The six months period for the Eastport-Cedar Keys schedule can be extended for periods of 15 days each for an additional charge. Rates for the Great Lakes and tributaries are quoted upon any six months' navigation period between April 1 and November 1. This six months' period can be extended for periods of 15 days each for an additional charge. Yachts which are insured with Great Lakes limits may be covered to include the Eastport-Cedar Keys range by charging a premium representing the difference between the Great Lakes and Eastport-Cedar Keys rates, regardless of the time that the yachts are in the Eastport-Cedar Keys limits.

Reduction in rate is available if the gasoline or diesel yacht is equipped with approved fire extinguishing equipment built into the engine room.

### QUESTIONS AND PROBLEMS

1. (a) *A*, who is a manufacturer, sells goods to *B*, of London, and desires a special policy to protect himself against loss during shipment. Describe the information which the insurance company should have in order to issue the policy.
- (b) What policy form should *A* obtain if expansion of his business necessitated constant shipments to various ports of the world?
- (c) What essential information is required in an application for an open cargo policy?
- (d) One of *A*'s agents in Europe purchased goods amounting to \$5,000 on January 20, 1951. The goods were shipped to *A* on January 30.

As soon as the goods were shipped, *A*'s agent cabled *A*. That same day the vessel sank. Through error of the cable company, *A* was not advised of the shipment until February 10, on which day he notified the insurance company.

- (e) What is the difference between the open policy and the blanket policy?
2. (a) What problems must the exporter and importer consider in connection with the purchase of marine insurance?
- (b) Explain the purpose of the marine insurance certificate.
- (c) *N*, who was a manufacturer of tinware, sold his goods at a profit of 10%. How should *N* determine the amount of insurance for a shipment which cost him \$5,000?
- (d) *N* shipped his goods to various countries. Discuss the method used to determine the rates to the various destinations.
- (e) What methods of insurance are used for the sale of merchandise to customers in foreign countries?
- (f) *N* had an open marine insurance policy. He sold to *B* goods shipped on vessel *X* and insured for \$5,000. He had drawn a draft on *B* which he desired to discount with his bank. Describe the procedure *N* must follow.
3. *R* had an open cargo policy. What is the company's liability for the following:
- (a) *R* arranged to ship goods to *P*. The bill of lading provided shipment under deck. The goods, however, were shipped on deck. A wave swept the cargo overboard during the voyage.
- (b) *R* sent a shipment of goods to Cuba by a sailing vessel. The cargo was destroyed by fire.
- (c) Due to error, *R* described the destination of his cargo as Liverpool instead of Paris. The cargo was damaged by sea water.
- (d) *R* shipped goods to *G*, who was in business in Venezuela. *G* instructed *R* to insure goods for *G*'s benefit. *R* received the advice after *R* obtained information that the cargo had been damaged.
- (e) *L*, of Syria, purchased goods from *R* on C.I.F. terms. *R*'s policy provided coverage only for the cost of the merchandise and profit. The goods were delivered in a damaged condition. In addition, *L* had to pay duty of \$500 on the damaged merchandise.
- (f) Goods were sent to *R* by airplane. During the course of transportation the goods were damaged by fire.
- (g) *R*'s policy included coverage for parcel-post shipments. *R* sent *Z* a shipment valued at \$500 by parcel post. The shipment was lost.
- (h) *R*'s policy provided a limit of \$100,000 on any one vessel. *R* shipped goods valued at \$120,000 on vessel *M*. During the course of transportation, *R* suffered a 50% loss to his cargo.
- (i) *R* shipped goods to Brazil. However, the stress of weather forced the captain of the vessel to change his route. While attempting to reach the port of destination, the cargo was damaged.

- (j) At the port of destination *R*'s goods were transferred to a lighter. The lighter sank while conveying the goods to the dock.
  - (k) *R*'s agent purchased goods in Europe. While the goods were being transported on a train, prior to shipment, goods amounting to \$4,000 were destroyed by fire.
  - (l) Goods which had been shipped from *R*'s warehouse were on the dock prior to being placed on the vessel, when a severe storm caused 25% damage.
  - (m) *R*'s shipment of goods from New York to Liverpool was insured for \$5,000. While being unloaded at the dock at Liverpool, *R*'s goods were destroyed by fire.
  - (n) *R* shipped goods to *B*, of London. After landing, the goods remained on the dock. On the 20th day after landing, the goods were stolen from the dock.
  - (o) *R* shipped goods to *F*, of Argentina. *F*'s warehouse was approximately 450 miles beyond the port of landing. During the course of delivery of the goods to *F*'s warehouse, the goods were damaged, due to fire. The loss occurred on the 21st day after the goods had been landed.
  - (p) Rain damaged goods while being shipped on a vessel. *R* claimed \$1,000 damage.
  - (q) During a voyage it appeared that the ship would sink unless part of the cargo could be thrown overboard. At the captain's orders, goods of *R*, valued at \$1,000, were thrown overboard.
  - (r) During the course of the voyage several of the sailors took packages of goods, belonging to *R*, valued at \$500.
  - (s) While the vessel was proceeding to the port of destination, war broke out involving the country to which the goods were being shipped, and the vessel was captured.
  - (t) *R*'s cargo insured for \$5,000 was landed at the port of destination. A riot on the dock caused 10% damages to *R*'s goods.
  - (u) Suppose the above loss was occasioned by a strike at the port.
  - (v) After the cargo was landed the local government authorities confiscated *R*'s goods. No reason was given for this act by the authorities.
4. *Q* purchased an open cargo insurance policy subject to war, strike, and riot clauses. *Q* shipped goods insured for \$5,000 on vessel *Z*. What is the company's liability for the following:
- (a) In view of the declaration of war, the course of the vessel had to be changed and the vessel arrived at a neutral port. The cargo had to be sold there for \$2,500.
  - (b) Because of the breaking out of war it was impossible to unload the vessel for 20 days. During the unloading the cargo was lost.
  - (c) War had broken out at the port of discharge and the vessel was lost while the captain was attempting to run the blockade.

- (d) The cargo was landed at the port of destination and was commandeered by the de facto government.
  - (e) *Q*'s goods consisted of war material which was shipped in violation of Federal regulations. Before the vessel left the United States port, the goods were seized by the Federal government.
  - (f) As a result of contact with a mine, the vessel and cargo were lost.
  - (g) *Q*'s cargo was damaged, due to collision with a dock.
  - (h) *Q* shipped his goods from his warehouse by train to the port of loading. While on the train, the goods were lost when an enemy bomb blew up the train.
  - (i) The captain had to change his voyage on account of enemy action. The goods were delivered to another port, and an attempt was made to sell the goods. Before the sale was made, the goods were stolen.
  - (j) While the goods were on the vessel, the company sent the insured notice of cancellation. The vessel was sunk by an enemy submarine and the cargo was lost.
5. (a) *M* purchased an open cargo insurance policy subject to strike, riot, and civil commotion clause. *M* shipped goods insured for \$5,000 on *Vessel X*. Discuss the company's liability for the following:
- (1) *M*'s cargo was damaged by strikers.
  - (2) Several persons boarded the vessel and maliciously damaged *M*'s cargo.
  - (3) While the goods were on train to be delivered to the vessel for shipment overseas, the goods were damaged by an agent of an enemy country.
- (b) Compare the provisions in respect to delay and cancellation of the riot, strike, and civil commotion clause with the war clause.
6. Explain the company's liability for the following losses:
- (a) *L*'s open cargo policy was written subject to theft, pilferage, and nondelivery coverage. *L* shipped goods insured for \$5,000. Two per cent of the cargo was stolen from the dock before loading on the vessel.
  - (b) *M*'s open cargo insurance was written subject to theft, pilferage, and nondelivery coverage. When the goods were loaded on the vessel, it was discovered that one package was missing. The value of the package was \$200. The goods were shipped on land subject to a bill of lading which limited the railroad company's liability to \$50.
  - (c) During the course of the voyage, an engine explosion caused 20% damage to *L*'s cargo.
  - (d) *A* was insured under an open marine insurance policy subject to a "named risk" endorsement. *A* shipped clothing insured for \$5,000 on *Vessel Z*. The goods were packed in burlap. When the

goods were delivered, it was found that they had been damaged through the use of hooks. The damage was 10%.

- (e) *B*'s open cargo insurance policy was written subject to an all risks clause. As a result of contact with fresh water, *B*'s cargo, insured for \$2,000, was damaged, causing 40% loss.
  - (f) What if, in the previous problem, the loss had been caused by a riot?
  - (g) *N* shipped bulk oil, subject to all risks coverage. *N* suffered a 10% loss due to leakage.
  - (h) During shipment on *Vessel X*, a fire occurred which delayed the arrival of the vessel for several days. On account of late arrival, the market value at the port of destination declined 10%.
  - (i) *O* shipped a cargo of meat. Due to the breakdown of the refrigerating system, the ship was delayed 48 hours for repairs. The cargo of meat was a total loss.
  - (j) Two per cent of *O*'s cargo of woolen goods was damaged by sea water.
  - (k) Suppose that the damage was 15%, and that the cargo shipped was tobacco.
  - (l) When a shipment of goods was unpacked on arrival, it was discovered that the goods had become spotted. No accident had occurred during the voyage. *P* claimed 10% loss.
  - (m) Suppose sea water entered the vessel and caused the damage described in subdivision (e) above.
  - (n) *Q* shipped molasses. During the course of the voyage the vessel met very heavy weather, causing a leakage of the molasses. *Q* claimed 10% damage.
  - (o) What if the leakage of molasses was caused by collision with another vessel?
  - (p) *D* shipped crockery valued at \$350 and suffered a 10% loss due to breakage caused by heavy weather.
  - (q) Suppose in the above problem the loss had been due to fire.
  - (r) *E*'s open cargo policy was written subject to a breakage clause. A shipment of crockery insured for \$1,500 was damaged by the crew, causing 20% loss.
7. *P*'s open cargo policy was written subject to the F.P.A.A.C. clause. *P* shipped goods insured for \$5,000 on *Vessel Z*. What is the company's liability for the following losses:
- (a) Contact with sea water caused 10% damage.
  - (b) Fire broke out, causing 10% damages to *P*'s cargo.
  - (c) Suppose the loss had been due to theft.
  - (d) Fire broke out on the vessel, causing 20% damage to *P*'s cargo. Subsequently, *P*'s cargo was again damaged by sea water and suffered a loss amounting to 10% of the original value of the cargo.
  - (e) Suppose that, in the above problems, *P*'s policy was written with the F.P.A. clause with English conditions.

8. *X* had an open cargo policy. Describe the company's liability for the following contingencies:
- X* shipped on *Vessel B* ten packages of equal value, insured under an open cargo policy for \$10,000 with a "W/Λ 3% Each Package" clause attached. During shipment, one package was subjected to 4% damage.
  - X*'s goods were insured for \$5,000. The policy was written with average, irrespective of percentage. During shipment the cargo was damaged 2%.
  - X* shipped \$5,000 worth of merchandise on deck, subject to a 10% deductible clause. During the voyage the vessel carrying the shipment collided with another vessel and *X*'s cargo suffered 25% damage.
  - The vessel sank, causing loss of the cargo. The investigator for the marine insurance company discovered that the cargo should not have been shipped on the ship, since the ship needed repairs.
  - Instead of proceeding to the port of destination, the captain proceeded to another port outside of this route in order to take on extra cargo. After taking on the additional cargo, the captain of the vessel proceeded to the port of destination. Before arrival, however, fire caused 75% damage to *X*'s goods.
  - During the course of the voyage *X* suffered a loss of \$1,000 as a result of seizure of the goods. The goods had been shipped in violation of Federal laws.
  - The captain decided to discharge *X*'s cargo at a port prior to the port marked for discharge of the goods. During unloading *X*'s cargo was damaged.
  - There was a limit of \$50,000 liability on any one shipment. *X* shipped goods insured for \$40,000 on *Vessel B*, and goods insured for the same amount on *Vessel C*. *Vessel B* sank.
  - Suppose the two insured cargoes had been transferred to one ship, which then sank.
9. Discuss the company's liability for the following losses if an open cargo policy was issued with a limit of \$25,000 on April 10, 1951.
- The bill of lading provided that the owner of the vessel was to have the benefit of insurance on *G*'s goods. Because of negligent operation of the vessel by the captain, the vessel sank and *G*'s cargo was lost.
  - G*'s cargo was stolen by members of the crew while the cargo was on *M*'s ship. *G* demanded payment for the loss, but *M* refused to pay.
  - G*'s cargo was transported on *Vessel B*. The vessel collided with *Vessel C* due to the negligence of both captains. The owner of *Vessel B* was required to pay \$50,000 to the owner of *Vessel C*.
  - G* suffered a loss of \$1,000 as a result of a sea peril. An investigation of *G*'s insurance on the cargo showed that he had also pur-

chased an open policy from *Company B* on April 15, 1951, for a limit of \$25,000.

- (e) What if, in the previous problem, both insurance policies had been purchased on April 10, 1951?
  - (f) In addition, *G* had a \$20,000 floater policy with *Company C*, covering his goods against fire. While *G*'s goods were on dock prior to being loaded, a fire occurred causing damages of \$12,000.
  - (g) *G*'s machine was damaged in transit. The value of the machine was \$4,000. The cost of repairing the machine was \$500. *G* demanded payment for the value of the machine.
  - (h) *G* shipped goods with branded trade-marks. The packages were damaged by water and the labels had to be removed. *G* demanded the amount of insurance carried on the packages.
  - (i) *G*'s cargo was involved in a general average loss. *G*'s contribution to the general average loss was \$1,000.
  - (j) Suppose the previous problem referred to salvage charges.
  - (k) The captain, desiring to make greater speed, reduced various parts of the cargo by throwing them overboard. *G*'s shipment was lost in that manner. *G* demanded general average contribution.
  - (l) During the course of the voyage *G*'s goods were damaged by sea water. *G*'s cargo suffered 20% damage. In order to avoid further damage, *G*'s agents spent \$100.
  - (m) *G*'s open cargo policy included duty charges. When *G*'s cargo insured for \$5,000 arrived at the port of discharge, it was discovered that part of the cargo was damaged 60%. The insurance company requested *G* that he should not pay the duty charges on the damaged goods.
  - (n) *G* insured goods for \$5,000 on a vessel. As prices had fallen during the course of shipment, the value of the cargo at the port of discharge was \$4,000. During the voyage, *G*'s cargo was damaged 15%.
  - (o) Suppose that in the above problem, prices had risen and the value of the cargo at the port of discharge was \$6,000.
  - (p) *G*'s policy provided for payment of losses to the *C Bank*. *G* suffered a \$1,000 loss. *G*'s premium had not been paid.
10. (a) What essential information is required from an applicant for hull insurance?
- (b) What is the coverage of the freight policy?
  - (c) How may coverage under the hull policy be extended?
  - (d) What purposes are served by the builder's risk policy?
  - (e) *N*'s hull was insured for \$500,000. As a result of a collision of *N*'s vessel with another vessel, *B* was injured. *B* commenced suit against the owner of the vessel for \$10,000. Discuss the company's liability under the hull policy if the suit is successful.
11. Compare the effectiveness of state regulation of rates for fire and marine insurance.

12. (a) What are the various coverages available for yacht insurance?
- (b) *Y* insured his yacht on June 15, 1950. Discuss the company's liability for the following:
- (1) Thieves boarded the yacht and stole a chair valued at \$20.
  - (2) As a result of the explosion of the boiler, the yacht was damaged.
  - (3) While the yacht was chartered, an explosion occurred causing \$1,000 damage to the hull.
  - (4) Due to the negligence of the captain, several spars were damaged.
  - (5) Suppose that the loss in the previous problem occurred in the course of a race.
  - (6) As a result of riot, *Y*'s vessel was damaged while at dock.
  - (7) While *Y* was cruising near Florida in September, the yacht was lost in a hurricane.
  - (8) *Y*'s yacht was damaged off the Maine coast on April 5, 1951.
  - (9) *Y* stored some of the yacht's furniture on land. On December 1, 1951, furniture valued at \$600 was damaged by fire.
  - (10) Suppose that the loss in the above problem had been caused by flood.
  - (11) *Y* was cruising in his yacht on June 12, 1951. He did not expect to arrive at the port of destination until June 20. On June 18 the ship was damaged, due to the negligence of the captain.
- (c) What is the purpose of port risk insurance for yachts?
- (d) *Y*'s yacht policy was written subject to a P. and I. clause. Due to the negligent operation of the yacht, the captain damaged a dock. As a result of the accident, a passenger and a sailor were also injured. What is the company's liability?
- (e) What factors determine the rate for yacht insurance?

## CHAPTER 17

### INLAND MARINE INSURANCE

Marine insurance was first designed to protect property on the high seas. It was later extended to protect property in the course of transportation not on the high seas and property of a mobile nature. For this development the term "Inland Marine Insurance" is used. The various policy forms are generally called "floaters" because they may cover the goods insured at various locations and in transit. The practices in this field of insurance are not completely standardized.

**Types of Inland Marine Policies.**—Important policy groups included under inland marine insurance are :

1. Transportation floaters.
2. Floaters covering personal property.
3. Floaters covering property and equipment of commercial enterprises.

#### Transportation Floaters

**Forms of Transportation Floater.**—The following are illustrations of the transportation forms :

1. Motor truck carrier.
2. Shippers.
3. Trip transit (single trip).
4. Parcel post.
5. Registered mail.
6. Armored motorcar and messenger.

**Inland Transit Policy.**—The various forms listed above are attached to a basic form called the "inland transit policy" and may be used to cover a wide variety of transportation risks.

**MEASURE OF LIABILITY.**—Goods are valued at the amount of invoice if there is any. In the event there is no invoice, the goods are valued at the cash market value on the date and at the place of shipment.

Liability is limited to a specific amount for any one casualty either in case of partial or total loss, salvage charges, other charges, or all expenses combined.

Provisions of the form are the following:

1. The company is liable under the policy for merchandise while in transportation anywhere within the limits of the continental United States and Canada.
2. In event of loss or damage to part of a machine or other article consisting of several parts, the company is liable as in marine insurance, for the value of the lost or damaged part.
3. If labels, capsules, or wrappers are lost or damaged, the company is responsible, as in marine insurance, for an amount sufficient to pay the cost of new labels, capsules, or wrappers and to recondition the goods.
4. In case of disagreement as to the amount of loss, the policy provides for the appointment of appraisers, and by them of an umpire, as in fire insurance.
5. As in marine insurance, the policy is subject to the sue and labor clause.
6. The insured is not permitted to relinquish or limit his rights against any carrier, bailee, or other party liable for damage to the insured party, unless waived by the form.
7. The company is not liable for any loss settled without the consent of the company.
8. When the insurance company has paid a loss or advanced or loaned money, the insured must, at the request of the company, make claim and institute legal proceedings against any parties believed liable. The insured must act through counsel designated by the company and use every reasonable means to recover from these parties.

**Motor Truck Carrier's Form.**—A motor truck carrier is a public carrier and is, therefore, liable for all loss of merchandise except if caused by an act of God, acts of a public enemy, inherent vice, or acts or default of shippers. In view of the wide liability of the carrier, legislation has been passed permitting the Interstate Commerce Commission or Public Service Commission to limit the carriers' liability in consideration of the reduced tariff charge for the carriage of certain commodities.

The motor truck carrier's policy covers liability of the insured as a carrier of lawful goods and merchandise, the property of others, while in due course of transit, or from trucks or trailers operated by the insured.

The liability of the company commences from the time the merchandise leaves the premises, factory, store, or warehouse in the custody of the public truckman at point of shipment on board the trucks in due course of transit until unloaded at destination. The policy does not, however, cover the insured's liability on merchandise while loaded on trucks in terminals, garages, or places used as such, while loaded on trucks at point of destination (except while in actual course of unload-

ing), nor while unloaded from the trucks for any purpose except when temporarily unloaded due to an accident or breakdown to the trucks while in transit.

Although the property is a transportation coverage, the property is also insured while temporarily detained in garages for a period subject to a limited number of hours, unless a Sunday or legal holiday intervenes. In the latter event, coverage continues for the stipulated number of hours in addition to Sunday or the legal holiday.

In the event of breakdown or repairs to any motor truck, necessitating temporary withdrawal from service, privilege is given the insured to substitute a truck other than described in the policy, provided the substituted motor truck is operated by the insured. The insured must report to the company in writing all such substitutions within 24 hours, Sundays and holidays excepted, and must pay an additional premium if required.

The motor truck carrier's form may provide for coinsurance with the valuation clause. It limits the insurance company's liability to that portion of the loss which the sum insured on the contents of the truck and trailer bears to the total value of the goods on the truck and trailer. If, for example, the policy insures for \$10,000 on the contents of a truck and trailer, and the truck carries goods valued at \$15,000, and there is a loss of \$5,000, the insured will receive only \$3,333.33. The result is that the insured is a coinsurer to the extent of one-third of the loss.

If the policy is written for a flat premium, payment of any claim reduces the amount of insurance unless reinstatement is applied for and an additional premium is paid.

The motor truck floater insures against legal liability caused by any of the following :

1. Fire, including lightning, self-ignition, and internal explosion of the conveyance.
2. Perils of the sea, lakes, rivers, or inland waters while on ferries only, including general average and salvage charges for which the insured is legally liable.
3. Accidental collision of the vehicle, on which the property is carried, with any other vehicle or object except (1) caused by contact with any part of a roadbed or curbing, or with rails or crossties, or (2) contact with a stationary object in backing for loading or unloading.
4. Overturning of the motor truck.
5. Collapse of bridges and culverts.
6. Flood (meaning thereby rising waters and river floods).
7. Cyclone, tornado, or windstorm, excluding loss or damage caused by rain, sleet, or snow, whether driven by wind or not.

Other perils covered by endorsement are : (1) holdup or robbery ; (2) theft of an entire shipping package (excluding pilferage).

The policy does not cover for loss or damage under any of the following circumstances :

1. Caused by loss of market, delay, rot, decay, souring or change in flavor, improper loading or unloading, freezing or heating—whether or not arising out of a peril insured against.
2. Caused by chipping, scratching, marring, denting, bending, spotting, discoloring, moulding or soiling, leakage of liquids, breakage—or similar damage unless directly caused by a peril insured against.
3. Caused by strikers, locked out workmen, or persons taking part in labor disturbances or civil commotions.
4. Caused directly or indirectly by (a) enemy attack by armed forces, including action taken by military, naval, or air forces in resisting an actual or an immediately impending enemy attack; (b) invasion, insurrection, rebellion, revolution, civil war, usurped power; or (c) seizure or destruction under quarantine or customs regulations, confiscation by order of any government or other public authority, or risks of contraband or illegal transportation or trade.
5. Caused by neglect of the insured, his associates in interest or employees, to use all reasonable means to save and preserve the merchandise at and after any disaster insured against.
6. By reason of the contents of cargo being abandoned or left without a responsible person in charge.
7. To accounts, bills, deeds, evidences of debt, notes, securities, negotiable documents, records, currency, specie, money, bullion, gold, silver, and other precious metals, diamonds, precious or semiprecious stones, jewelry—or similar valuables unless endorsed in writing.
8. To paintings, statuary, other works of art or articles of virtu, except against absolute total loss directly caused by a peril insured against, up to the actual cash value but not exceeding the valuation as stated in the shipping receipt, or in any event for more than \$250 in any one casualty.
9. To livestock or other animals, unless endorsed in writing, in which event the company will be liable only for claims arising from death or from injury rendering death immediately necessary, directly caused by a peril insured against.
10. Caused by breakage of eggs, unless directly caused by a peril insured against, and then only if the loss amounts to 50% of the value of each shipping package, each package to be considered as if separately insured. The company will in no event be liable for loss by breakage of eggs in excess of 25% of the limit of liability insured on the contents of the truck upon which the loss happens.
11. To trucks, automobiles, trailers, or chassis, or bodies of such vehicles.
12. Dishonesty by the insured, agent, or employees, whether occurring during the hours of employment or otherwise.

Policies are also issued that eliminate some of the above exclusions, as, for example, insurance may be provided for loss due to strike, riot, and civil commotion.

**Common Carrier Endorsement.**—By statute, owners of motor vehicles engaged in transporting goods for others in interstate traffic are subject to the Motor Carrier Act which is under the supervision of the Interstate Commerce Commission. An endorsement attached to the cargo insurance policy for interstate carriers provides that the policy is amended in order to insure compliance by the insured as a common carrier of property by motor vehicle with the Motor Carrier Act, with reference to making compensations to shippers or consignees for all property belonging to shippers or consignees coming into possession of the carrier, in connection with its transportation service and pertinent rules and regulations of the Interstate Commerce Commission.

The endorsement provides that the company is not liable for an amount in excess of \$2,000 for any loss or damage occurring at any one time or place, nor in any event for an amount in excess of \$1,000 for the property carried on any one motor vehicle whether or not the loss or damage occurs while the property is on the motor vehicle or otherwise. The liability of the insurance company for the limits provided in this endorsement is a continuing one, notwithstanding any recovery made by the shipper.

The company agrees, subject to the above limits of liability, to protect any shipper or consignee for a loss or damage to his property which comes into the possession of the insured in connection with its transportation service, for which loss or damage the insured may be held legally liable regardless of whether the motor vehicle, terminal, warehouse, and other vehicles used in connection with the transportation of the property are specifically described in the policy or not. The company is liable for loss or damage, whether occurring on the route or in the territory authorized to be served by the insured, except in states specifically mentioned in which the insured's operations are covered by other insurance. Within the limits of liability, the shipper or consignee is not affected by any provision in the policy if the insured may be held legally liable to compensate the shippers or consignees, irrespective of the financial responsibility of the insured. The terms of the policy, however, are binding between the insured and the company. The insured is responsible to the company for any payment that the company would not have been obligated to make under the provisions of the policy, except for the agreement stated in this endorsement.

The Interstate Commerce Commission must be furnished with a duplicate original of the policy and all endorsements whenever requested

by the Commission. Some state laws require a similar endorsement for intrastate carriers.

**Shipper's Transportation Floater.**—This form, which is attached to the inland transportation form, is designed to cover merchandise shipped by manufacturers, wholesalers, or other business concerns. A shipper of merchandise must consider the possibility of loss during transportation. Many shippers believe that they are fully protected while transporting goods by public carrier. As stated previously, however, a carrier is not responsible for loss due to acts of God, such as loss due to windstorm, lightning, or flood. Furthermore, the freight receipt or express receipt accepted by the shipper may be subject to a limit of liability. If loss occurs while the goods are being transported, the full amount of the loss, therefore, may not be collected due to statutory or contract limitation of liability of the carrier. Moreover, in some cases the carrier may not have the financial ability to pay the claim. Even if the shipper is fully covered by the public carrier's liability, if he has purchased a transportation policy he may avoid delay in the settlement of the loss. The insurance company will pay the claim and then try to collect from the carrier.

Liability attaches from the time the goods leave the factory, store, or warehouse at the starting point, in due course of transit, until they are delivered at the point of destination, arrive at seaboard for export, or are returned to the shipper.

Specifically the policy may cover the insured's property, including merchandise held in trust, or on commission, or on consignment, or on which the insured has made advances, or sold but not delivered during transportation by any of the following means:

1. Trucks owned or hired by the insured.
2. Taxicabs.
3. Messengers.
4. Any railroad or railroad express company, including hazards occurring while the property is on ferries or in cars on transfers or lighters.
5. Regular coastwise lines or steamers navigating United States inland, Atlantic and Gulf waters not south of the Gulf of Mexico, including risks of lighter or craft to or from vessels. Each lighter or craft is regarded as if separately insured. The policy does not cover shipments by vessels navigating on the Pacific Coast, on any canals, on the Great Lakes, and on the Mississippi or Ohio rivers and their tributaries.
6. Public truckmen, transfer, or other transportation companies.
7. Aircraft.
8. Contract carriers. A contract carrier is one who transports merchandise for a few business firms subject to a contract. He does not hold himself out to the public generally for the carrying of merchan-

dise. In the absence of any special agreement, his liability is limited to loss or damage caused by negligence.

Property in the custody of common carriers incidental to transportation is also protected against hazards occurring while the goods are on docks, wharves, piers, bulkheads, and platforms, and in depots and stations.

**COVERAGE.**—The following named perils are covered and permissions granted by the transit policy :

1. Losses on land caused by fire, lightning, cyclone, tornado, flood, explosion, earthquake, landslide, collision, derailment, overturning of vehicles, collapse of bridges, and other perils of transportation. The coming together of cars during coupling is not deemed a collision.
2. Waterborne losses caused by fire and perils of the sea, including general average and salvage charges and expenses. No coverage is provided for particular average unless amounting to 3% of the value of each case or shipping package.
3. Theft of an entire shipping package only, excluding pilferage.
4. The insured is permitted to release public truckmen to a stated valuation as for example, \$50 for each case, bale, or shipping package if the value is over \$50.
5. On railroad express shipments the insured is permitted to accept the ordinary receipts issued by a carrier whereby their liability is limited to a specified amount, such as \$.50 per pound, but not less than a stipulated amount, as, for example, \$50 if the value is over \$50.

**EXCLUSIONS.**—The policy does not cover the following :

1. Losses on accounts, bills, currency, deeds, evidences of debt, money, notes, securities.
2. Losses due to leakage, breaking, marring, or scratching, unless resulting from fire, lightning, cyclone, tornado, explosion, earthquake, landslide, flood, collision, derailment, or overturning of vehicle while on land, or unless caused by the vessel's being stranded, sunk, burned, or in collision, while waterborne.
3. Damages to goods resulting from delay, wetness, dampness, or being spotted, discolored, mouldy, rusted, frosted, rotted, soured, steamed, or changed in flavor, unless the direct result of a peril insured against.
4. Losses resulting from strikers, locked-out workmen, or other labor disturbances.
5. Losses arising from riot or civil commotion.
6. War.
7. Loss or damage to merchandise shipped on the decks of steamships.

Coverage is also available eliminating many of the exclusions. Many shippers can obtain all risk insurance.

ENDORSEMENTS.—The following endorsements may be used at various times :

1. *Lock warranty.* If the policy covers theft of an entire shipping package, a warranty may be attached providing that the truck must be locked when unattended, and the company will be liable for loss only if there are visible marks of forcible entry made at the time of loss.
2. *Alarm system.* The hauling of commodities such as furs, cigarettes, liquors, and securities involves a serious hazard. Therefore an endorsement may be required that an alarm system must be attached to the automobile.

Provisions that may be found in the alarm system endorsement are as follows :

- (a) The alarm system on each vehicle must be inspected regularly at periods of not longer than 30 days by the company installing the alarm system, or its representatives, and, if found deficient, must be placed immediately in operating order by the service company.
  - (b) While contained in the vehicle, the property must be placed in the cargo compartment with the alarm in the "on" position.
  - (c) While the vehicle is being loaded or unloaded, the property must be attended and guarded constantly by an employee of the insured.
3. *Theft limitation.* In view of the hazard involved in the transportation of alcoholic beverages, furs, silks, hosiery, rayons, velvets, cigars, cigarettes and tobacco, and tires and tubes, an endorsement may provide that liability for theft of any of the commodities will be limited to a stipulated percentage of the insurance, such as 25%, for any one loss applicable to the contents of the vehicle. Instead of a percentage limitation, a stipulated amount may be stated as the limit.

PREMIUMS.—The premiums for the truckmen's forms are determined and payable in several ways, the usual being the following :

1. Flat annual premium based on the aggregate amount of insurance at risk on all scheduled trucks.
2. Gross receipts. The insured must report monthly the full amount of the previous month's gross receipts. As here used, gross receipts denote charges for ordinary packing of the goods preparatory to loading, for handling in loading and unloading, and for transportation to destination. The insured must maintain a record of gross receipts open for inspection by the company's representative during business hours.

**Trip Transit Policy.**—In its general nature, the trip transit policy resembles the transportation policy. The chief point of distinction is that the trip transit policy covers only one trip on one movement of

goods, while the transportation floater covers a series of shipments during the insured period. Accordingly, the trip transit policy is designed for occasional rather than continuous shippers, and is especially useful to cover household furnishings, merchandise, and personal belongings when moved from one point to another.

**Parcel-Post Insurance.**—Each package sent by parcel post can, for an additional charge, be insured with the government against loss and damage, including theft and pilferage.

**Governmental and Private Insurance.**—In many cases insurance granted by the government may not exactly meet the shippers' needs. However, private parcel-post insurance, which is an all risk coverage, may meet the necessary requirements. Although this is a form of transportation insurance, coverage is generally not included in the shipper's policy. The coverage is usually provided by a separate policy, that is, the parcel-post policy. The policy insures the safe arrival of the property contained in each package against loss or damage from any external causes whatsoever, except for specified exclusions hereafter stated, occurring while the package is actually in the custody of the Post Office Department.

**FORMS.**—The coupon form and open form of parcel-post insurance are available to the shipper. Under the coupon form, the insured purchases a book of coupons and agrees to detach enough coupons to correspond to the premium required on the value of the shipment. The detached coupons are sent to the consignee with any package insured. When the book of coupons is exhausted, another is purchased to continue the insurance protection.

Under the open form the insured agrees to keep a record of all shipments and their value, and to render a monthly or quarterly report to the insurance company. The premium is based on the value of the goods shipped.

**COVERAGE.**—The coupon form insures goods, owned by and incidental to the insured's business, while in transit by registered and unregistered, mail and by parcel post. Coverage continues, within the limits of the United States, Dominion of Canada, Alaska, and the Post Office Department until its arrival at the address designated upon the stub of the coupon book.

**PREMIUM.**—As previously mentioned, the premium charge must be paid by the use of an equivalent value in coupons. For shipments by ordinary parcel post or unregistered mail, coupon requirements are:

Value	No. of Coupons
\$25 or less .....	1
Over \$25 and not exceeding \$50 .....	2
Over \$50 and not exceeding \$100 .....	5

For shipments by registered mail or government insured parcel post, the following coupons are required :

Value	No. of Coupons
\$50 or less .....	1
Over \$50 and not exceeding \$150 .....	2
Over \$150 and not exceeding \$250 .....	5
Over \$250 and not exceeding \$500 .....	8

The coupons are furnished in book form at the minimum rate of five cents per coupon. A package valued at \$100, for example, may be insured for 25 cents if shipped by ordinary parcel post and for 10 cents if sent by registered mail.

**DUTY OF THE INSURED.**—The insured must insure each package shipped by government insured parcel post, valued at \$100 or less, with the government for at least 50% of the actual value, and each package valued in excess of \$100 with the government for not less than \$50.

The insured must mail all packages in strict accordance with the General Parcel Post Statutes, and comply with all the regulations for the conduct of the parcel-post system as prescribed by the Postmaster General.

The insured must enclose, with the property or invoice, one or more insurance coupons furnished by the company and must enter upon the stub in each page from which such coupons have been detached: (a) the name and address upon the package; (b) the description of contents; (c) the valuation of the property; (d) the date of mailing; (e) the class of mail by which the package was sent.

**EXCLUSIONS.**—The following goods and perils are not covered :

1. Accounts, bills, currency, deeds, evidences of debt, money, notes, or securities.
2. Merchandise shipped on consignment, memorandum, or approval, unless shipped in fulfilment of an order or request, or consigned to parties to whom the insured has previously sold merchandise.
3. Inherent vice of such merchandise as green fruits, butter, eggs, lard, or such other articles as are perishable in their own nature. These items are covered, however, against the risks of fire, theft, pilferage, and nonarrival of any such package.
4. Insufficient or insecure wrapping and packing, addressing, or postage.
5. Shipments destined to transients at hotels (except shipments to salesmen of insured) unless sent by registered mail or government-insured parcel post.

6. Packages bearing descriptive labels or the outside of which tends to describe the nature of the contents.
7. Packages not bearing a stipulation "Return Postage Guaranteed."
8. Property covered by other insurance. Declaration of value to the Post Office Department on packages sent by registered mail or government insured parcel post is not deemed a violation of this condition.
9. War and kindred perils including atomic weapons in time of war or peace.

**PROOF OF LOSS.**—All losses must be reported immediately in writing to the company or its agent. Notice of loss should be accompanied by the original wrapper, if obtainable, and by the government receipt on shipments by registered mail or government insured parcel post.

**UNDERWRITING PRACTICE.**—The insurance companies do not desire to cover furs, stamp and coin collections, jewelry, watches, precious stones, and similar articles. The following articles are also usually not considered desirable risks: fountain pens, wearing apparel, hosiery and underwear, men's and women's clothing, dental supplies, automobile accessories, cigars, cigarettes, and tobacco.

Radio tubes, electric light bulbs, crockery and chinaware, glassware, phonograph records, and other merchandise of a fragile nature are insured with a clause excluding the risks of breakage, howsoever caused.

**PARCEL POST: OPEN POLICY.**—The open form is similar to the coupon form, except as to the basis for payment of premium.

The insured must keep a record of all mail shipments to be covered by the policy before they leave the premises. The record must show the date and the value of each such shipment, the name and the address of the consignee, and the class of mail used. The record must be open to the inspection of the company's representative at all reasonable times during business hours.

The insured must send a statement to the company or its agent monthly or quarterly, on blanks furnished by the company, giving the total value of shipments insured under the policy during the month immediately preceding, together with a check for premium due.

A minimum annual specified premium is charged. All monthly or quarterly statements, as provided in the policy, are charged against this minimum annual premium until this amount has been earned by the company. After the company has earned its minimum annual premium, the monthly or quarterly payment of the additional premium is made in accordance with the terms stipulated in the policy.

**FOREIGN COVERAGE.**—Shipment to foreign points outside of the United States and the Dominion of Canada and Alaska, may be insured

by a separate parcel-post policy. The domestic policy may be endorsed to provide for such coverage.

**DESCRIPTIVE LABEL ENDORSEMENT.**—Since the policy excludes liability when the package bears descriptive labels, an endorsement can be used providing that the clause does not apply in respect to catalogues and similar printed advertising matter in bound form which the postal laws and regulations permit to be shipped at a reduced postal rate when marked “book” or “books.”

In addition, an endorsement can also be used providing that “the Descriptive Labels Clause does not apply in respect to merchandise which, under the United States Postal Laws and Regulations, may be admitted to the mails only when a description appears on the outside of the parcel containing the merchandise.”

**RETURN OR INCOMING PARCEL POST SHIPMENT ENDORSEMENT.**—Since the policy does not cover return or incoming parcel post shipments, an endorsement is available under the open form policy providing that the policy is extended to cover returned shipments of property originally shipped by the insured and incoming shipments of property owned or purchased by the insured or in which the insured has an insurable interest. The insured must keep a record of such shipments and report these shipments like other reports of outgoing shipments.

**GOVERNMENT INSURED PARCEL POST.**—If the insured agrees to use government insured parcel post only, the warranty will be eliminated which requires insurance on each package shipped by government insured parcel post, valued at \$100 or less, to be insured with the government for at least 50% of the actual value, and each package valued in excess of \$100 will be insured with the government for not less than \$50. However the policy will then cover property only while in transit by registered mail or government insured parcel post. All shipments, therefore, made by ordinary parcel post and unregistered mail will be excluded from coverage. The insured must warrant that each package will be insured with the government for a stipulated minimum amount.

**Registered Mail.**—Since the maximum indemnity provided by the Post Office Department is \$1,000 per package, government insurance is inadequate for financial concerns who may use the mails for shipment of money or securities. The registered mail policy, which is written for large amounts, will therefore meet such needs. Registered mail policies are issued to banks, trust companies, security brokers, investment corporations, and other firms whose business is essentially that of a fiduciary.

The policy is an open form covering the property of the insured or the property of others which the insured wishes to insure, including generally bonds, coupons, stock certificates, and other securities; postage and revenue stamps; postal express and other money orders; certificates of deposit, checks, drafts, notes, bills of lading and warehouse receipts, and other commercial papers; documents and papers of value, bullion, platinum, and other precious metals, coin or paper currency, jewelry, gems, precious and semiprecious stones, and other like property. However, the policy should not be used to cover shipments of jewelry or precious stones, or precious metals for any insured who is engaged in the business of manufacturing or dealing in jewelry or engaged in mining, smelting, metal refining, or goldsmiths, silversmiths, or other similar concerns.

**COVERAGE.**—The registered mail policy provides coverage between the premises of senders and addressees within the limits of North America. Foreign mail to and from North America is similarly covered. In the event of nondelivery, the insurance continues until the article is returned to the sender.

The contract is usually an all risks coverage including theft by employees of the insured or addressee with exclusions of war risks.

**DUTIES OF THE INSURED.**—Under the terms of the policy, the insured must observe the following requirements:

1. All packages must be properly sealed and mailed in accordance with the standards of the post office or express company at point of dispatch.
2. All insured shipments must be declared and entered in the insured's records prior to loss. The amount may be more or less than the actual value of the property.
3. The insured has the option of making daily, monthly, or annual reports. His option is specified on an endorsement attached to the policy.
4. The insured must endeavor to have the contents of each package verified by two persons. But verification by only one person will not prejudice the insured's right to recovery.

**LIMIT OF LIABILITY.**—Liability is limited as follows:

1. A specific amount per shipment of securities to one addressee on any one day. If declaration of any shipment to an addressee exceeds

the stipulated amount, the excess may be covered only when notice is given to the company prior to the shipment.

2. A specific amount per package of currency shipped, unless otherwise extended by endorsement.
3. In event of other insurance for the excess over amounts covered by other insurers. The company, however, must advance the entire loss insured by the policy. The insured is obligated to refund the amount actually recovered on other insurance without interest and less any reinstatement premium on other insurance.

**PAYMENT OF LOSSES.**—In the event of loss, the insured may recover an amount which is equal to the value of the lost property at the time when the package was shipped or when the loss became known to him. Recovery may also be based on the cost of corresponding property purchased by the insured to replace the lost property, plus any actual loss of interest. In either case the company is not liable for an amount in excess of the amount declared for insurance.

When the amount recorded or declared for insurance on bonds, stock certificates, or rights is the market value of the securities on the day of shipment, the insured may require the company to pay for the cost of corresponding property purchased by the insured in an available market, but not exceeding 105% of the market value of the securities on the day of shipment. The company may require the insured to take all measures for the recovery, reissue, or duplication of the property, in which case the company will pay all expenses of the insured so incurred. Losses are paid within seven days following receipt of proofs of loss and interest.

If there is any other insurance or indemnity applicable to any loss covered by the registered mail floater, the policy covers only for its prorata proportion of the loss. If the loss is due to theft on the part of employees of the senders or addressees, the registered mail floater is excess insurance over any other insurance or indemnity whether the other insurance is primary or excess insurance. The amount of loss will be advanced by the company and must be refunded to the company without interest and less any reinstatement premium on the other insurance when recovered from the other insurance. If a loss by theft on the part of employees of the senders or addressees is indemnified under a blanket or fidelity bond, the company will pay the amount of the premium experience credit that would have been earned under such bond had the loss not been so indemnified. For any loss other than by theft on the part of employees of the senders or addressees which may be recoverable under any blanket bond, the registered mail floater is primary insurance.

**Armored Motorcar and Messenger Policy.**—In many cities money and securities are transported by armored motorcar. Protection against loss of money and securities which are transported by armored motorcar

and messenger, especially money to be used for pay-roll purposes and deposits with banks, can be covered by the armored motorcar and messenger policy.

The policy covers bonds, coupons, stock certificates, and other securities; postal, express, and other money orders; certificates of deposit, checks, drafts, notes, bills of lading, warehouse receipts, and other commercial papers, and documents and papers of value; gold, silver and platinum, coin, paper money, and bullion. Coverage is granted against all risks.

Insurance is provided on shipments by armored motorcars or messengers within and between places in the Continental United States or Canada, excluding Alaska, covering continuously from the time of acceptance by the carrier or messenger, whether within or without the premises of the sender, and to end immediately upon delivery to the addressee at place of address or until returned to the sender in event of nondelivery. Shipments are covered either outgoing or incoming, which the insured may elect to insure, provided the shipment is declared or entered in accordance with the conditions of the policy prior to loss, thereby fixing the amount which the insured may elect to declare for insurance. The policy is subject to a limitation of a stipulated sum in any one loss or casualty.

The policy contains provisions similar to the registered mail policy in reference to (1) notification prior to shipment if the total value of shipments by one conveyance or messenger delivery exceeds the maximum limit of the policy, (2) when losses are payable, and (3) expense of duplication of lost instruments.

### Floater Covering Personal Property

**Classification.**—Property floaters may be issued to insure the personal property of individuals and to insure property in connection with the business of the policyholder. Illustrations of policies covering the personal property of individuals are the following :

1. Schedule property floater.
2. Personal effects floater.
3. Bicycle floater.
4. Fur floater.
5. Jewelry-fur floater.
6. Wedding presents floater.
7. Silverware and silver plate floater.
8. Fine arts floater.
9. Musical instruments floater.
10. Stamp and coin collection floater.
11. Camera floater (world-wide).
12. Outboard and motor boat floater.
13. Scientific instruments floater.
14. Gun floater.
15. Miscellaneous articles floater.
16. Radium floater.
17. Personal property floater.

As here used, personal property does not distinguish the articles insured from real property, but rather indicates belongings of a personal nature, such as clothing, jewelry, furs, and other articles frequently worn or used by the insured.

**Schedule Property Floater.**—Many of the above insurance forms covering miscellaneous personal articles are attached to the schedule property floater. Under this floater the company's liability is measured thus :

1. In the case of articles consisting of several parts, the insured value of the part lost or damaged.
2. In the event of loss of or damage to any article of a set, for a reasonable and fair proportion of the total value of the set. Loss of or damage to any article or articles which are a part of a set does not mean total loss of the set. However, consideration is given to the importance of the damaged or lost article or articles.

As in the case of the inland transit form, which the schedule property floater follows in many of the provisions, the insurance company is not liable for losses when benefits directly or indirectly inure to a carrier or other bailee.

**Personal Effects Floater (World-Wide).**—The personal effects floater insures personal effects away from the domicile that are usually carried by travelers and tourists, including the insured, his wife, and their unmarried children permanently residing together. The term "domicile" has been defined by the courts of one state as follows: "The domicile of a person is where he has his permanent home and principal establishment, to which, whenever he is absent, he intends to return."

**COVERAGE.**—The coverage is all risk and world-wide, subject to specific exclusions. The personal effects floater therefore insures the traveler against property losses resulting from hotel fires, railroad and bus wrecks, thefts in hotels, damages at laundries and cleaners, and similar hazards. The coverage on jewelry, watches, furs, and other articles consisting wholly or in part of silver, gold, platinum, or fur is limited in any one loss to 10% of the insurance and not exceeding \$100 on each article. Full coverage on these articles may be obtained by the jewelry-fur floater or the fur floater or personal property floater that are analyzed subsequently.

**EXCLUSIONS.**—No coverage is provided for the following articles and hazards :

1. Automobiles, automobile robes, motors, motorcycles, bicycles, boats, and other conveyances and their appurtenances.

2. Accounts, bills, currency, deeds, evidences of debt, letters of credit, passports, documents, money, notes, securities, railroad and other tickets, household furniture, animals, physicians' and surgeons' instruments, and artificial teeth and limbs.
3. Salesmen's samples and merchandise for sale or exhibition.
4. Theatrical property of any kind.
5. Property covered by other insurance.
6. Any property at the permanent residence of the insured.
7. Property in storage, except at points en route during travels.
8. Personal effects in the custody of students while in fraternity or sorority houses or on premises of schools, except against fire.
9. Except when in the custody of a common carrier, theft or pilferage of the insured property while left unattended in or on any automobile, unless such automobile is equipped with a fully enclosed body or compartment and the loss is a direct result of violent forcible entry (of which there must be visible evidence) from a fully enclosed body and the doors and windows of the automobile were securely locked, or from a compartment which was securely locked. However, liability is limited to 10% of the total amount of insurance and for not more than \$250 in any one loss.
10. Gradual deterioration, moths, vermin, inherent vices, and damage sustained as a result of working upon the product.
11. Breakage of brittle articles unless caused by thieves, fire, or accidents to the conveyance.
12. War and kindred perils, including atomic weapons in war or peace.

The following endorsements may be used to modify the policy: (1) students' endorsement, (2) twenty-five dollar deductible endorsement, (3) additional named person endorsement, (4) unattended automobile endorsement, (5) auto trailer—trailer home endorsement, (6) exclusion of burglary, theft, or robbery.

1. **STUDENTS' ENDORSEMENT.**—Upon payment of an additional premium, the policy may be endorsed to provide coverage for property while in fraternity houses, dormitories, or on the premises of schools.

2. **TWENTY-FIVE DOLLAR DEDUCTIBLE ENDORSEMENT.**—The cost of insurance may be reduced by providing for a deduction of \$25 from each claim for loss or damage.

3. **ADDITIONAL NAMED PERSON ENDORSEMENT.**—Upon the payment of an additional premium, the property of any person permanently residing with the insured may be covered. A separate endorsement is required for each additional person.

4. **UNATTENDED AUTOMOBILE ENDORSEMENT.**—Upon the payment of an additional premium, the company will eliminate the provision excluding liability for theft or pilferage when the insured property is left unattended while in any automobile.

**5. AUTO TRAILER—TRAILER HOME ENDORSEMENT.**—The personal effects floater covers the personal effects of the insured while contained in an auto trailer or trailer home. However, the property contained in or attached to an auto trailer or trailer home, such as furniture and furnishings, would not be covered. The auto home and trailer endorsement provides the necessary coverages. The endorsement does not cover :

- (a) Equipment and accessories built into and forming a permanent part of the automobile trailer or trailer home.
- (b) Such equipment as is usually attached to the ordinary automobile of the private passenger or truck type.
- (c) Loss or damage caused by marring, scratching, dampness of atmosphere, or extremes of temperature.
- (d) Mechanical breakdown or any damage to electrical apparatus caused by electricity, whether artificial or natural, unless fire ensues, and then the insurance company is liable for loss by such ensuing fire only.

**BICYCLE FLOATER.**—Because the personal effects floater does not cover bicycles, an insured may need a bicycle floater to protect him against loss or damage to his bicycle when he is on a trip, or when the bicycle is in storage, or while the insured is riding the bicycle anywhere in the United States or Canada.

The bicycle floater covers the bicycle against all risks. No loss which is under \$5 is collectible. The floater does not cover : wear, tear, gradual deterioration, rust, inherent vice, mechanical breakdown, or derangement ; loss or damage caused by any process or while the property is being worked on, unless caused by fire or explosion ; war. Any theft of the insured property must be reported to the police as soon as practicable.

**Fur Floater (World-Wide).**—If the insured desires, he may obtain an all risk floater which covers only fur coats and similar articles made of fur, owned by the insured and members of his family of the same domicile. Exclusions are similar to those of the jewelry-fur floater.

**Jewelry-Fur Floater (World-Wide).**—Since the normal use of jewelry and furs requires such articles to be carried frequently from the residences of the owners, insurance is needed against hazards in all situations. For this the jewelry-fur floater is offered.

**COVERAGE.**—The coverage includes the specific articles mentioned when they are the property of the insured and of members of his family who are in permanent residence with him. The policy contains provisions for settlement of losses of articles in a pair or set, and warranty in reference to the carrier similar to that of the schedule property floater.

**EXCLUSIONS.**—While the policy is called an all risk form, it excludes losses from gradual deterioration, moths, vermin, inherent vice, and war.

To determine the amount of insurance, the insured should furnish an appraisal for each article or the original bill of sale. When the policy is renewed there may be a reduction in the amount of insurance due to depreciation. The rate of reduction depends upon quality, repairs effected, care of the particular article, and general market value.

**FIFTY-DOLLAR DEDUCTIBLE CLAUSE.**—The policy can be written with a \$50 deductible clause applying to each claim for loss.

**Wedding Presents Floater (World-Wide).**—This form is attached to the schedule floater policy and covers wedding presents wherever located. The policy terminates 90 days after the date of the wedding.

**EXCLUSIONS.**—All property and risks are covered except:

1. Realty, animals, automobiles, motorcycles, aircraft, bicycles, boats or other conveyances or their appurtenances, money, notes, securities, stamps, accounts, bills, deeds, evidences of debt, letters of credit, passports, documents, railroad or other tickets.
2. Wear and tear, gradual deterioration, moth, vermin and inherent vice, dampness of atmosphere or extremes of temperature unless caused directly by rain, snow, sleet, hail or bursting of pipes or apparatus.
3. Perils incident to processing or working upon articles.
4. War and kindred perils including atomic weapons whether in time of peace or war.
5. Breakage, marring, or scratching of statuary, marbles, glass, china, porcelains, and similar fragile articles, or furniture, unless caused by fire, lightning, theft (or attempted theft), cyclone, tornado, wind-storm, earthquake, flood, explosion, malicious damage or collision, derailment or overturn of conveyances.
6. Mechanical breakdown or loss or damage to electrical apparatus caused by electricity other than lightning except for any ensuing fire damage.

By endorsement the policy can be extended to cover the risk of breakage of brittle or fragile articles.

**Silverware and Silver Plate Floater (World-Wide).**—When attached to the schedule property floater, this form insures silverware, silver-plated articles, goldware, gold-plated articles, and pewter articles.

**COVERAGE.**—The form covers articles belonging to the insured and members of his family living permanently with him. The company is liable for all risks, whether the loss occurs during transportation or otherwise.

**EXCLUSIONS.**—The following are specifically excluded:

1. Flasks, smoking and writing instruments, and articles of personal adornment.

2. Loss or damage caused by denting, breakage of glass or other brittle parts, unless caused by theft or attempt thereof, vandalism or malicious mischief, fire, lightning, windstorm, earthquake, flood, explosions, falling aircraft, rioters, strikers, collapse of building or other structure, or by accident to a transporting conveyance.
3. Deterioration or wear and tear.
4. Loss resulting from working upon or due to processing articles, unless caused by fire or explosion.
5. War and kindred perils.
6. Confiscation by order of any government or public authority.

**Fine Arts Floater.**—Another personal property floater form is provided for the owner of fine arts by the fine arts policy. This contract is used to insure objects of art which are individually scheduled and valued in the policy. Although these objects can be covered under specific policies such as fire insurance or burglary insurance, losses may occur due to many other causes which may damage articles such as rare books, paintings, or statues. Examples of such are losses caused by water damage, carelessness of servants, mysterious disappearance, or damage by pets.

**COVERAGE.**—The personal fine arts floater covers specified art collections of private individuals, firms, corporations, or associations, excluding dealers, auction rooms, museums, art galleries, and other art institutions open to the public. The insured must warrant that insurance will not accrue directly or indirectly to benefit any carrier or other bailee.

**EXCLUSIONS.**—The policy is an all risk cover but does not cover :

1. Wear and tear, gradual deterioration, moths, vermin, inherent vice.
2. Loss from any repairing, restoring, or retouching process.
3. War and kindred perils.
4. Risks of contraband and illegal transportation or trade.
5. Unless otherwise endorsed, breakage of statuary, marble, glassware, bric-a-brac, porcelain, and similar fragile articles, except when caused by fire, lightning, attempted or actual theft, cyclone, tornado, windstorm, earthquake, flood, explosion, aircraft damage, malicious damage, collision, overturn or derailment of conveyance.

**LIMIT OF LIABILITY.**—The company is not liable for more than the amount stated in the schedule forming part of the policy for the lost or damaged article. Each article must therefore be scheduled, and the insured should furnish an appraisal or bill of sale with each article. If one article of a set is destroyed, the measure of liability is a reasonable proportion of the value of the set, rather than the total loss.

Coverage can be obtained either at one specific location where the articles are ordinarily kept, or at more than one location where the articles are ordinarily kept, or coverage while on exhibition. If the

property is covered at two or more locations, the policy can be endorsed providing coverage while the property is in transit between the locations.

**BREAKAGE.**—By endorsement the exclusion due to breakage of glassware, porcelain, china, and similar fragile articles may be eliminated.

**BULK SCHEDULES.**—In order to avoid listing a large number of items, the policy can be issued in a schedule with an endorsement providing that the policy covers on the property as per schedule on file at the office of the insurance company or at the office of an authorized representative on a specific date.

**NEW ACQUISITION ENDORSEMENT.**—There is a possibility that during the course of the policy term the insured may acquire new objects of fine art. By endorsement the policy can provide coverage for additional items automatically for a period not exceeding 90 days. However, the company's liability is limited to a specific percentage of the total amount of insurance or a specific amount in respect to any one loss. The insured must report the additional property within the stipulated period and pay a prorata additional premium.

**PAIR AND SET ENDORSEMENT.**—Under the policy the company is liable only in connection with the loss of a part of a set for the value of the part that is lost. However, this clause may be eliminated by payment of an additional premium under which the company will pay for the full value of the set, and the insured must surrender the remaining parts of the set to the company.

A fine arts policy is also available for dealer's auction rooms, museums, art galleries, and similar institutions. Unless authorized by the company, policies covering property in certain territories must be endorsed to exclude windstorm, cyclone, or hurricane.

**Musical Instruments Floater.**—The musical instruments floater provides coverage against the loss of musical instruments. This insurance is usually written on an endorsement to be attached to the schedule property floater policy. Two forms are available: the broad form, designed to cover such musical instruments as valuable violins, and the limited form, designed to cover musical instruments of standard manufacture.

**BROAD FORM.**—The broad form of the musical instrument floater provides all risk coverage for musical instruments scheduled in the policy within the limits of the continental United States and Canada. The insured may be required to warrant that he will not play any insured musical instrument for remuneration during the policy period.

*Exclusions.* The broad form does not cover under any of the following circumstances:

1. Loss or damage caused by refinishing, renovation, or repairing, moths or vermin, wear and tear, or gradual deterioration.
2. Loss or damage caused by dampness of the atmosphere or extremes of temperature.
3. Loss or damage caused by breakage of strings.
4. Loss or damage caused by infidelity of persons to whom the insured property may be loaned or rented.
5. War, invasion, hostilities, rebellion, insurrection, or confiscation by order of any government authority, and atomic weapons.
6. Risks of contraband and illegal transportation or trade.

**LIMITED FORM.**—The limited form insures against fire, lightning, cyclone, tornado, flood, theft, and accidents to conveyances.

*Exclusions.* The policy does not insure against losses resulting from any of the following circumstances:

1. Infidelity of persons to whom the insured property is loaned or rented.
2. Property left unattended in or on any automobile, unless in the custody of a common carrier.
3. War, invasion, hostilities, rebellion, insurrection, or confiscation by order of any government authority and atomic weapons.
4. Risks of contraband and illegal transportation or trade.

The insured may be required to warrant that he is not and will not be engaged in playing for remuneration any musical instrument insured during the policy period.

While all articles which are insured must be individually itemized, miscellaneous equipment used in conjunction with the instruments scheduled in the policy may be written on a blanket basis subject to a limit of 10% of the total amount of insurance.

**Stamp and Coin Collection Floater.**—Numerous individuals in the United States make a hobby of collecting postage stamps and coins. Public interest is shown by the fact that many newspapers have special columns devoted to stamp and coin issues. When attached to the schedule property floater, the stamp and coin collection form is designed to cover any privately owned collection of stamps or coins.

The property includes postage stamps, including due, envelope, official revenue, match and medicine stamps, covers, locals, reprints, essays, proofs, and other philatelic property owned by the insured and listed in the schedule. Coverage is also provided for books, pages, or mountings upon which stamp collections are placed, as specified in the schedule.

When coins are insured the property covered includes rare and current coins, medals, paper money, bank notes, tokens of money, and other numismatic property listed in the schedule. Coverage is also provided for coin albums, containers, frames, cards, and display cabinets in use with such collections.

Though the stamp and coin collection form is an all risk policy, the following perils are excluded :

1. Fading, creasing, tearing, thinning, transfer of colors, wear, tear, dampness, extremes of temperature, moths, vermin, or gradual depreciation and deterioration or damage sustained from handling or while being actually worked upon or resulting therefrom.
2. Infidelity of persons to whom insured property is entrusted.
3. Theft from an unattended automobile, unless in the custody of railway express, armored car companies, or while being shipped by registered mail or insured parcel post.
4. Mysterious disappearance of individual stamps or coins unless specifically scheduled with a definite valuation set opposite their description, or if not specifically scheduled, unless mounted in a volume, and the page to which they are attached is also lost.
5. Loss or damage to property in the custody of transportation companies unless such shipments are made by railway express or armored car, and shipments by mail, unless by registered mail or insured parcel post.
6. Loss or damage arising from war, invasion, hostilities, rebellion.
7. Loss due to confiscation by government or public authority.
8. Risk of contraband or illegal transportation or trade.

**LIMIT OF LIABILITY.**—In case of loss of or damage to the property scheduled and representing individual items, the company's liability is limited to the amount specified in the schedule for the particular item.

In case of loss of or damage to property specifically described as pairs, strips, blocks, series, sheets, frames, cards, or the like, the company will pay, in the event of total loss of such an item, up to the amount set opposite the item involved. In the event of partial loss, the company is liable for not more than the cash market value of the whole set, less the cash market value of the remainder at the time of loss; but if the property was insured for less than the cash market value, the liability of the company cannot exceed the proportion that the amount insured bears to the cash market value.

For property not provided for above, the company is not liable for more than the actual cash market value of the property at the time of loss, less depreciation however caused, not exceeding, however, \$250 with respect to any one stamp or coin or any one pair, strip, block, series, sheet, cover, frame, card, or the like.

The company is not liable for a greater proportion of loss on unscheduled property than the sum insured on such property bears to the cash market value at the time of loss.

**ENDORSEMENTS.**—1. *Infidelity.* On payment of an additional premium, the exclusion of loss caused by infidelity of persons to whom the **insured** property is entrusted can be eliminated.

2. *Theft from Unattended Automobiles.* By endorsement, the company will assume liability of theft from any unattended automobile.

3. *Bulk Schedules.* Although the policy requires scheduling of specific items except for blanket coverage on unscheduled items, a policy can be issued without attaching a schedule, wherever there are numerous individual items, by attaching an endorsement providing that the policy covers on property in accordance with a schedule on file at the office of the company, which schedule was signed and dated by a duly authorized representative of the company.

4. *Fireproof Safe Endorsement.* A reduction in rate will be allowed if the insured warrants that the stamps will be kept in a fireproof safe equipped with a combination lock when not in use or on exhibition.

**Camera Floater (World-Wide).**—When attached to the schedule property floater, the world-wide camera form is designed to insure cameras, projection machines, films, and articles of equipment pertaining to cameras, home projection machines, films, and equipment, including movable sound equipment for the recording, projection, reproduction, and operation of motion pictures. In addition, miscellaneous articles such as binoculars, telescopes, and microscopes used in connection with cameras and projection machines can also be covered by the policy.

Since the policy is a scheduled policy, each camera or projecting machine, and each piece of equipment, must be listed in the schedule separately and also for a separate amount. Miscellaneous small items can be insured as a group, however, but not for more than 10% of the total amount of insurance if the policy is all risk subject to specific exclusions.

**EXCLUSIONS.**—The following perils are excluded from coverage :

1. Loss of or damage to any camera or equipment designed for aerial photography, while in or on aircraft, unless endorsed on policy.
2. Loss or damage caused by wear and tear, gradual deterioration, moths, vermin, inherent vice, war, and kindred perils.
3. Damage sustained due to any process or while being actually worked upon and resulting therefrom.

4. Infidelity of persons to whom the insured property may be loaned or rented.

ENDORSEMENTS.—1. *Aircraft Exclusion.* By endorsement, coverage for cameras and equipment used for aerial photography while on any aircraft can be included.

2. *Property of Others.* By endorsement, the form can be amended to cover the property of others in the custody or control of the insured.

3. *Infidelity Exclusion.* Loss due to infidelity of persons to whom the insured property may be loaned or rented can be included by endorsement.

**Outboard and Motor Boat Floater.**—An increasing number of people own small power-driven craft. Many others may own outboard motors which can be attached to boats. The outboard and motor boat insurance policy affords coverage for such property. The form is attached to the scheduled property floater. The following is used to describe the property in the policy:

1. Model.
2. Who built the model.
3. When purchased.
4. At what price.

PERILS COVERED.—The policy covers the following perils:

1. Fire and lightning.
2. Theft of the entire boat or the entire motor.
3. Collision with another vessel or structure while being navigated.
4. Derailment, collision, or overturn of a transporting vehicle on which the insured property is loaded for shipment.
5. Total loss of the motor by marine perils, including total loss overboard from any cause.

The policy is also available limited to the perils of fire and theft.

EXCLUSIONS.—The company is not liable under the outboard and motor boat policy under the following circumstances:

1. While the property is (a) being used as a public or livery conveyance for carrying passengers for compensation, (b) rented, or (c) operated in any official race or speed test.
2. Loss caused by infidelity of the employees of the insured or anyone to whom the property is entrusted.

3. **Loss or damage caused by strikers, locked-out workmen, or persons taking part in labor disturbances or riots or civil commotions.**
4. **Loss or damage arising from war, invasion, hostilities, rebellion, insurrection, seizure or destruction under quarantine or customs regulations, confiscation by order of any government or public authority, or risks of contraband or illegal transportation or trade.**

**AGREEMENTS.**—The insured agrees that the insured property will be stored on shore and not used between certain dates. This period, known as the “lay-up” period, affects the rate. No recovery for a total loss will be allowed unless the expense of recovering and repairing the property insured exceeds the insured value. The insured is permitted to rent boats from others and attach the insured motor.

**Scientific Instruments Floater.**—When attached to the schedule property floater, the form insures against all risks of loss or damage (except as excluded) to the scientific instruments described in the policy. The policy does not, however, insure against any of the following:

1. **Loss or damage caused by wear and tear, gradual deterioration, moths, vermin or inherent vice, or damage sustained due to any process or while being actually worked upon and resulting from the process.**
2. **Infidelity of persons to whom the insured property may be entrusted.**
3. **Breakage of glass or articles of a brittle nature, unless caused by thieves or fire.**
4. **Loss or damage arising from war, invasion, hostilities, rebellion, insurrection, confiscation by order of any government or public authority, or risks of contraband or illegal transportation or trade.**
5. **Loss or damage caused by blowout, short circuit, or other electrical disturbances of any kind, exclusive of lightning, within any electrically equipped unit unless fire ensues, and then for loss or damage caused by fire only.**
6. **Except when in the custody of a common carrier, loss or damage caused by theft or pilferage of the insured property while left unattended in or on any automobile, unless such automobile is equipped with a fully enclosed body or compartment. The loss must be a direct result of violent forcible entry (of which there must be visible evidence) from a fully enclosed body, the door and windows of which must have been securely locked, or from a compartment which must have been securely locked. The company is not liable, however, for more than 10% of the total amount of insurance, nor for more than \$250 in any one loss.**

**Gun Floater.**—The owner of guns and accessories can obtain all risk insurance subject to specific exclusions. This floater is attached to the scheduled property floater. The policy will cover the insured and

members of the family in the same domicile. There must be a description of each article, name of manufacturer of the article, and serial number.

Under the policy there is no coverage for loss or damage due to any of the following :

1. Caused by bursting of gun barrels, rust, fouling, wear and tear, gradual deterioration, moths, vermin, inherent vice, or damage sustained due to any process or while being actually worked upon and resulting from such process or work.
2. Caused by marring, denting, or scratching, unless caused by fire, tornado, burglary, theft, or accident to conveyance.
3. Due to infidelity of any person or persons to whom the insured property may be entrusted.
4. Arising from strikes, riots, civil commotions, war, invasion, hostilities, rebellion, insurrection, confiscation by order of any government or public authority, or risks of contraband or illegal transportation or trade.

**Miscellaneous Articles Floater.**—The owners of personal property, such as trophies and paraphernalia, can insure these articles against loss or damage due to all risk or subject to the following specific perils :

1. Fire or lightning.
2. Cyclone and tornado.
3. Flood (meaning the rising of natural bodies of water).
4. Collision, derailment, or overturn of transporting conveyances.

Under the policy there is no coverage for loss or damage caused by or resulting from any of the following :

1. Any process of refinishing, renovating, or repairing.
2. Dampness of the atmosphere or extremes of temperature.
3. Moth, vermin, or inherent vice.
4. Short circuit or other electrical disturbances of any kind (exclusive of lightning) within any electrically equipped article, unless fire ensues, and then only for loss or damage caused by fire.
5. Partial or total disablement of any refrigerating plant, or by interruption of connection with the plant, whether such disablement or interruption is caused by fire or otherwise.
6. Infidelity, dishonesty, or any overt act on the part of the insured, associate in interest, or any of the insured's employees, whether occurring during hours of employment or otherwise, nor on the part of custodians (common carriers excepted) of the property insured, unless specifically endorsed on the policy.
7. Loss of market, delay, wear, tear or other deterioration, inherent vice, freezing, or heating, whether or not arising out of a peril insured against.

8. Any indirect or consequential loss of any kind. Where any insured item consists of more than one part, the policy will not cover more than the value of any particular part or parts which may be lost or damaged without reference to any special value which such article or articles may have as part of the insured item; nor more than a proportionate part of the insured value of the insured item.
9. Strikers, locked-out workmen, or persons taking part in labor disturbances, or arising from riots or civil commotion.
10. (a) Enemy attack by armed forces including action taken by military, naval, or air forces in resisting an actual or an immediately impending enemy attack; or (b) invasion, insurrection, rebellion, revolution, civil war, usurped power; or (c) seizure or destruction under quarantine or customs regulations, confiscation by order of any government or public authority; (d) risks of contraband or illegal transportation or trade; (e) any weapon of war employing atomic fission or radioactive force, whether in time of peace or war.

**Radium Floater.**—Various hospitals, clinics, and physicians or groups of physicians may own some radium. As the quantity is valuable and very small, radium can easily be lost. Coverage is obtained by the attachment of a schedule property floater to the radium floater.

Before the policy is issued, the following information must be furnished by the applicant for insurance:

1. Number of milligrams.
2. Character of container.
3. Bureau of Standards certificate test number.
4. Amount of insurance.

The policy covers against all risks, subject to specific exclusions. Coverage is not granted, however, under the following circumstances:

1. Against loss or damage caused by gradual deterioration or damage sustained due to and resulting from any repairing and restoration processes.
2. Against loss or damage arising from war or kindred perils including atomic weapons whether in time of peace or war.
3. Shipments made by mail, unless shipped by first-class registered mail.

**AGREEMENTS.**—The insured must use due diligence in the maintenance of special care and supervision of each patient under radium treatment by a doctor, nurse, or other person specially designated to exercise such care and supervision.

In the event of loss or damage, immediate notice by telephone or telegram must be given to the company. This permits a radium expert with an electroscope, employed by the company, to make the investigation as quickly as possible. If the investigation is unduly delayed, the radium may never be recovered.

ENDORSEMENT.—*Deductible Clause*. The policy may be written with a 10% or 25% deductible clause applied to each loss.

**Personal Property Floater**.—As explained previously, an individual can protect his household goods and furnishings and other personal property against specific hazards such as fire, extended coverage, vandalism, malicious mischief, and theft. In addition, he can obtain all risk coverage for certain personal property such as furs, cameras, objects of fine art, and various other articles and personal effects away from the domicile. The purchase of a personal property floater, which provides world-wide coverage on an all-risk basis, will eliminate the need to purchase numerous individual policies.

The policy covers personal property owned, used, or worn by the persons in whose name the policy is issued and members of the insured's family of the same household. The policy covers not only the named insured and members of his family, but at his option the personal property of others while on the premises of the insured, and personal property of servants while actually engaged in the service of the insured and while in the physical custody of the servants outside the residence.

Before the policy is issued, the insured must make a declaration of the value of his property by specified groups. This property is covered under the section designated as the unscheduled section of the policy.

The unscheduled personal property is declared in the following groups: (1) silverware and pewter, (2) linens (including dining-room and bedroom), (3) clothing (men's, women's, children's), (4) rugs (including floor coverings) and draperies, (5) books, (6) musical instruments (including pianos), (7) television sets, radios, record players and records, (8) paintings, etchings, pictures, and other objects of art, (9) china and glassware (including bric-a-brac), (10) cameras and photographic equipment, (11) golf, hunting, fishing, and other sports and hobby equipment, (12) refrigerators, washing machines, stoves, electrical appliances, and other kitchen equipment, (13) bedding (including blankets, comforters, covers, pillows, mattresses, and springs), (14) furniture (including tables, chairs, sofas, desks, beds, chests, lamps, mirrors, clocks), (15) all other personal property (including wines, liquors, foodstuffs, garden and lawn tools and equipment, trunks, traveling bags, children's playthings, miscellaneous articles in basement and attic) and professional equipment, if any. A specific amount must be stated for the unscheduled property (a) wherever located, and (b) the specific amount ordinarily situated throughout the year at residences other than the principal residence of the insured if the insured has more than one residence.

Although the policy does not contain any coinsurance clause, the insurance company will insist that the insured must purchase an amount

of insurance equal to 80% of the total value of the unscheduled property. Since the property is covered wherever located when a schedule is prepared, the insured should include property which may be at country clubs, schools, colleges, storage warehouses, and any other places.

If the insured desires he can specifically schedule articles such as jewelry, watches, furs, fine arts, and other property. Each item so specifically scheduled with individual amounts for each article will be considered as separately insured, and in case of the loss of any article the company may be liable up to the amount scheduled for the article. Otherwise these articles will be subject, in case of loss, to limitation, as explained below.

#### LIMITATION ON AMOUNT OF LIABILITY ON UNSCHEDULED PROPERTY.—

1. Since an insured may have more than one residence, the policy provides for coverage on unscheduled personal property ordinarily situated throughout the year at residences other than the principal residence of the insured, up to 10% of the amount of insurance purchased. A single residence will include the main residence and such outbuildings which are part and parcel of the activities of the main residence. A building which is adjacent to the main residence, but which may be used from time to time by other than the named insured, will be construed as a separate residence.
2. For any one loss of unscheduled jewelry, watches, and furs, the company is not liable for more than \$250.
3. For any one loss of money the company's liability is limited to \$100, and for notes, securities, stamps, accounts, bills, deeds, evidences of debt, letters of credit, passports, documents, and railroad and other tickets the company's liability is limited to \$500.
4. The company will also pay damage, except loss by fire, to property of the insured which is not specifically excluded by the policy, which is caused by theft or by vandalism and malicious mischief to the interior of the insured's residence.

#### EXCLUSIONS.—The policy does not insure any of the following :

1. Property not specifically scheduled, ordinarily situated throughout the year in states where the policy is prohibited by law or by state administrative regulation.
2. Animals.
3. Automobiles, motorcycles, aircraft, boats, or other conveyances (except bicycles, tricycles, baby carriages, invalid chairs, and similar conveniences) or their equipment or furnishings except when removed from the conveyances and actually on the premises of residences of the insured; property of any government or subdivision of the government.

4. Unscheduled property pertaining to a business, profession, or occupation of the persons whose property is insured, excepting professional books, instruments, and other professional equipment owned by the insured while actually within the residences of the insured.
5. Against breakage of eyeglasses, glassware, statuary, marbles, bric-a-brac, porcelains, and similar fragile articles (except jewelry, watches, bronzes, cameras, and photographic lenses) unless occasioned by theft or attempt at theft, vandalism, or malicious mischief, or by fire, lightning, windstorm, earthquake, flood, explosion, falling aircraft, rioters, strikers, collapse of building, accident to conveyance, or other similar casualty, nor unless similarly occasioned, against marring or scratching of any property not scheduled.
6. Against mechanical breakdown.
7. Against loss or damage to electrical apparatus caused by electricity, other than lightning, unless fire ensues, and then only for loss or damage by such ensuing fire.
8. Against wear and tear.
9. Against loss or damage caused by dampness of the atmosphere or extremes of temperature, unless such loss or damage is directly caused by rain, snow, sleet, hail, or the bursting of pipes or other apparatus.
10. Against deterioration, moth, vermin, and inherent vice.
11. Against damage to property except watches, jewelry, and furs occasioned by or actually resulting from any work on the articles in the course of any refinishing, renovating, or repairing process.
12. Property on exhibition at fairgrounds or on the premises of any national or international exposition, unless such premises are specifically described in the policy.
13. Against loss or damage caused by or resulting from hostile or war-like action in time of peace or war, including action in hindering, combating, or defending against actual, impending, or expected attack (a) by any government or sovereign power or by any authority maintaining or using military, naval, or air forces; (b) by military, naval, or air forces; or (c) by any agent of any such government, power, or authority or forces.
14. Against any loss or damage caused by any weapon of war employing atomic fission or radioactive force, whether in time of peace or war.
15. Against any loss or damage resulting from war and kindred perils.

The policy contains the usual clauses found in many policies, such as requirement for reporting of loss, examination of the insured after loss, prohibition against making insurance available for the benefit of any carrier or bailee, settlement for damage and loss of part of a set.

ENDORSEMENTS.—*Secondary Location—Additional Amounts.* By endorsement, the 10% of amount of insurance on secondary locations can be increased.

*Windstorm.* In some territories the policy may be endorsed in respect to windstorm, cyclone, or tornado on unscheduled property providing (1) a deductible amount applicable to each loss, and (2) a specified coinsurance clause for the value of the unscheduled property. A similar endorsement must be provided where secondary locations in similar territories are insured for more than a 10% automatic coverage.

*Exclusions of Windstorm.* If the insured desires, in certain territories coverage can be eliminated on the principal or secondary residences in these locations for windstorm, cyclone, tornado, rain, high water, or tidal wave.

**DEDUCTIBLE CLAUSES.**—Under the policy, any loss, however small, will be paid. However, the policy can be issued with a deductible clause of \$15, \$25, or \$50 applicable to the unscheduled portion of the policy. The deductible clause does not apply to loss or damage by fire, lightning, windstorm, cyclone, tornado, hail, explosion, riot, riot attending strike, smoke damage by vehicles or aircraft, burglary or holdup.

**PARTIAL LIMITATION CLAUSE.**—Some companies use a franchise clause, which provides that no loss will be paid unless the loss exceeds \$25. In that event the loss will be paid in full. This partial limitation clause, which is similar to the deductible clause, does not apply to losses caused by perils such as fire, lightning, extended coverage, burglary, and holdup.

**UNEARNED PREMIUM INSURANCE.**—Although the policy provides automatic reinstatement for any loss up to \$250, should the loss exceed that amount the amount of insurance would be reduced. By the attachment of the unearned premium endorsement, however, the amount of insurance will be automatically reinstated for the full amount of insurance, regardless of the amount of loss at any time during the policy period.

**MONEY AND SECURITIES.**—By endorsement, the liability of the company for money can be increased to \$500 for any one loss and for securities, notes, etc. to \$1,000 for any one loss.

**BOATS.**—By endorsement, boats can be insured up to \$500. The endorsement will cover boats which are not more than 21 feet in over-all length (except inboard powerboats), equipment and furnishings, and also outboard motors against the perils of fire, lightning, and theft. Incidentally, outboard motors and other equipment would be covered against all risk by the policy when the equipment is removed from the boat and is at the residence of the insured.

## Floaters Covering Property and Equipment of Commercial Enterprises

**Classification.**—Property floater policies, as previously mentioned, fall into two broad classes. The property policies thus far described cover the personal property of individuals. An analysis will be made of important forms which insure property in connection with the business of the policyholder. Illustrations of policies in this group are:

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| 1. Garment contractor's floater.         | 12. Pattern floater.                                     |
| 2. Theatrical floater.                   | 13. Installment floater.                                 |
| 3. Salesmen's floater.                   | 14. Contractor's equipment floater.                      |
| 4. Jeweler's block floater.              | 15. Installation floater.                                |
| 5. Laundry cleaners' and dyers' floater. | 16. Neon sign floater.                                   |
| 6. Rug and carpet cleaners' floater.     | 17. Manufacturer's output policy.                        |
| 7. Processors' floater.                  | 18. Horse and wagon floater.                             |
| 8. Furrier's customers' floater.         | 19. Live stock floater.                                  |
| 9. Personal certificate.                 | 20. Mobile agricultural machinery and equipment floater. |
| 10. Woolgrower's floater.                | 21. Bridge builder's risk policy.                        |
| 11. Floor plan floater.                  | 22. Bridge property damage policy.                       |

**Garment Contractor's Floater.**—The garment contractor's floater is used to protect those manufacturers who do not perform on their own premises all the steps necessary to produce completed garments. The goods may be sent by the manufacturer to specialists who do some particular part of the work and return them to the owner, who may then send them to still another specialist for additional work.

**COVERAGE AT CONTRACTOR'S PREMISES.**—This policy covers property temporarily detained on the premises of contractors and subcontractors during processing, anywhere within the limits of the United States, against the perils of fire, lightning, sprinkler leakage, water damage, burglary, holdup, windstorm, hail, smoke, damage caused by vehicles and aircraft, and boiler explosion.

In the case of burglary the policy provides that felonious entry must have been made by actual force and violence by the use of tools, explosives, electricity, or chemicals leaving visible marks at the point of entry and during hours when the premises were not open for business.

**LIMIT OF LIABILITY.**—The company is not liable for a greater proportion of any loss than the stated amount insured bears to the actual aggregate value of the insured property at all places at the time of loss. The policy is thus subject to 100% coinsurance.

The policy covers the property insured while in due course of transit within the limits of the Continental United States (excluding Alaska

and the Panama Canal Zone) but only between the premises of the insured and the premises of its contractors and the premises of subcontractors or from mills or other suppliers to the contractors or subcontractors. Furthermore, except in the case of a contractor specifically named, liability is limited to a specified sum for any loss, whether it is partial loss, total loss, salvage charges, or all three combined. While in transit, the policy covers against all risks of direct physical loss or damage to the property insured from any external cause, except for (1) delay or loss of market, (2) chafing, rubbing, gradual deterioration, moth, vermin, and inherent vice, (3) strike, riot, and civil commotion, or malicious mischief and explosion other than of steam boilers, (4) consequential loss, (5) war and like perils, (6) infidelity of insured or employees.

**DUTIES OF THE INSURED.**—The policyholder must agree to keep books and records in a form that will permit accurate determination of the exact amount of loss. The company requires access to these books and records during business hours.

**ENDORSEMENTS.**—Coverage may be extended by written agreement to include the following hazards :

1. The risk of theft in the premises of the contractor, excluding, however, conversion or other act of dishonesty on the part of the insured, contractors, subcontractors, or their respective employees, mysterious unexplained disappearance or shortage disclosed by taking inventory, or any other unaccountable loss where there is no evidence that the loss was occasioned by the peril specifically insured against.
2. The consequential damage liability, by providing that when any portion of an insured garment, as, for example, a suit of clothing, is so damaged as to prevent the sale of the entire garment at its actual market value, the company agrees to pay the difference between the actual cost, not exceeding market value, of the completed garment and the realizable value after the loss. If it chooses, the company may require the insured to surrender the portions not destroyed when paying him for the loss. The insured must warrant, however, that he will endeavor during at least 21 days after the loss to replace the destroyed portions. With respect to any one disaster involving both direct loss and consequential damage, the company is not liable for more than the limit stated in the policy.

Concerns which customarily sell goods in entire lots, or in a range of sizes or colors, may suffer a consequential loss even if only a few of the items in the lot or group are damaged. A broad form of consequential damage will cover the loss in value of the remaining articles of the lot or group due to the loss of, or damage to, any part of the lot or group.

3. Direct loss or damage caused by malicious mischief, rioters, strikers, or persons taking part in insurrections and rebellions. No claim is

allowed for delay, deterioration, or loss of market, or for confiscation or destruction by the government of the country in which the property is situated.

**Theatrical Floater.**—The theatrical floater, usually written as an endorsement on the schedule property floater, insures theatrical property.

**COVERAGE.**—The theatrical form covers scenery, costumes, and theatrical properties (except as excluded), owned or held by the insured in trust or on commission or on consignment or on which the insured has made advances or sold but not delivered, used in a specified production or play, wherever such property may be within the limits of the Continental United States and Canada.

**PERILS COVERED.**—The form insures against direct physical loss or damage caused by :

1. Fire, lightning, or explosion, collapse of bridges or culverts, flood, windstorm, cyclone, and tornado.
2. Aircraft or objects falling therefrom or by other vehicles, excluding any vehicles owned or operated by the insured.
3. Smoke, meaning thereby, smoke due to a sudden, unusual, and faulty operation of any heating or cooking unit connected to a chimney by a smoke pipe.
4. Theft, burglary, and holdup.
5. The collision, derailment, or overturning of land conveyance while the insured property is in transit on them.
6. Stranding, sinking, burning, or collision of vessels, including general average and salvage charges incurred.

**PERILS EXCLUDED.**—The floater does not insure against :

1. Loss or damage caused by wear and tear, vermin, gradual deterioration, inherent vice, delay, or loss of market.
2. Loss or damage resulting from misappropriation, secretion, conversion, infidelity, or any dishonest act on the part of the insured or other party of interest, his or their employees.
3. Loss or damage caused by strikes, riots, or civil commotions, war, insurrection, rebellion, or similar risks, seizure by government, or loss caused by atomic weapons whether in time of peace or war.

**PROPERTY EXCLUSIONS.**—The policy does not insure (1) buildings and their improvements and betterments; furniture, fixtures, furnishings, equipment, or other property not used in the production or play specified; (2) any conveyances or their appurtenances not actually used on the stage in such productions; (3) jewelry (except costume jewelry), gold, or platinum; (4) accounts, bills, currency, deeds, evidences of debt, documents; (5) railroad or other tickets; (6) animals.

**Salesmen's Floater.**—When attached to the schedule property floater, the salesmen's floaters insure concerns against risks to which

salesmen carrying samples are exposed. The salesmen's floaters are available in the limited and broad form. The policy will protect business firms against the loss or damage of merchandise or samples, including the trunks in which merchandise or samples are carried by the various salesmen. Privilege may be extended to cover goods sold from samples.

**LIMITED FORM.**—Under the limited form, the company is liable for the following hazards :

1. Perils of fire, lightning, navigation, and transportation while the insured articles are in the custody of any railroad, express, transfer, or transportation company, and steamship or steamboat.
2. Fire and lightning on automobiles or while in a hotel dwelling or business building.
3. Theft of an entire trunk or shipping package while being transported in the custody of a common carrier under check or receipt.
4. Theft of an entire trunk or shipping package while checked in any hotel.

**EXCLUSIONS.**—The limited form does not cover the following contingencies :

1. Hazards on any premises of the insured or where any salesman has a permanent office or salesroom.
2. Losses covered by specific insurance.
3. Breakage, leakage, marring, scratching, wet or dampness unless caused by a peril insured against.
4. Loss in value incurred when articles become spotted, discolored, mouldy, frosted, soured, rotted, steamed, or changed in flavor, unless as a result of an insured peril.
5. Loss through delay, inherent defect, and inadequate packing or addressing.
6. Strikes, riot, civil commotion, capture, seizure, detention, war, contraband, and illicit transportation or trade.

**SALESMEN'S BROAD FORM.**—By endorsement, the salesmen's floater may be extended to provide all risk coverage. The endorsed policy insures property anywhere while in the custody of the insured's salesmen, in the hands of the principal acting as salesman, or while in transit between the insured's premises and the salesmen.

Though termed all risk coverage, the endorsement excludes the following articles and hazards :

1. Losses occurring on business premises of the insured or of his salesmen and agents.
2. Losses, except by fire, occurring while property is left unattended in automobiles.

3. Damage resulting from wear and tear, gradual deterioration, moths, and vermin.
4. Losses resulting from breakage, marring, and scratching, unless caused by fire, lightning, cyclone, tornado, flood, actual or attempted theft, or by accident while in the transporting conveyances.
5. Losses caused by the infidelity of any person to whom the merchandise may be entrusted, or of any attendant while property is in or on any automobile or motorcycle.
6. Strikes, riots, civil commotion, capture, seizure, detention, war, contraband, and illicit transportation or trade.

**UNATTENDED AUTOMOBILE ENDORSEMENT.**—As stated previously, there is no theft coverage for loss from an unattended automobile. Such coverage, however, can be included by endorsement, provided that the automobile operated by the salesman has an entirely enclosed body and all doors and windows are securely closed and locked when left unattended. The policy will then cover theft from an unattended automobile occasioned by forcible entry and provided there are visible marks of entry on the automobile at the time of the loss. If expensive merchandise is carried in the automobile, the policy may require that a burglar alarm be attached to the vehicle.

**Jeweler's Block Floater.**—The jeweler's block policy is designed for those engaged in the manufacture or sale of jewelry. It is intended to provide complete coverage under one policy on all stock usual to the conduct of the jewelry business. In view of the broad coverage, the moral hazard is a vital consideration in the indemnity of this form of insurance.

**COVERAGE.**—The company assumes all risk liability for losses on pearls, precious and semiprecious stones, jewels, jewelry, watches, watch movements, gold, silver, platinum, and other precious metals and other alloys and stocks employed in the jewelry business under the following conditions:

1. When property is owned by the insured.
2. When property is delivered or entrusted to the insured by others who are not dealers in the property, and who are not otherwise engaged in the jewelry trade.
3. When property is entrusted to him by jewelers or dealers in the merchandise only to the extent of the insured's interest by reason of legal liability or for money actually advanced.

**EXCLUSIONS.**—The following hazards are not covered by the jeweler's block policy:

1. Theft, conversion, sabotage, and other dishonest acts of commission or omission, including sabotage on the part of the insured, his

- employees, or any other persons to whom the property may be delivered or entrusted. These risks are covered, however, if loss occurs when goods are deposited for safe custody by the insured, by a member of the firm, or by a salesman while traveling. This exclusion also does not apply while the goods are in the custody of a common carrier; of a mere porter, helper, or carrier not permanently employed by the insured; and of the post-office department as first class registered mail.
2. Damage resulting from processing or working upon the goods.
  3. War and kindred perils, including atomic weapons, etc.
  4. Losses at the insured's premises caused by earthquake or flood. However, fire caused by earthquake or flood is covered, unless coverage for fire is excluded from the policy.
  5. Losses occurring during transportation by express, unless the articles are in sealed packages sent by railway express if the value of the package exceeds \$1,000.
  6. Losses in the mails, unless the goods are sent registered first class.
  7. Losses in freight shipments whether by land, sea, or air, except under a receipt from the passenger, parcel, or baggage service.
  8. Losses while the goods are with motor carriers or truckmen unless under a receipt from (1) those operating exclusively as a customer parcel delivery service, (2) armored car service, or (3) the parcel or baggage service of a passenger bus line.
  9. Breakage of brittle or fragile articles, unless caused by fire, lightning, explosion, aircraft, vehicles, flood, earthquake, windstorm, strike, riot, civil commotion, burglary, or theft, or accident to the conveyance in which the property is being carried (provided any of the above perils are not otherwise excluded from the policy by endorsement).
  10. Loss or damage to property caused by theft or attempted theft from show windows, unless coverage is added by endorsement.
  11. Losses on goods sold on the installment plan from the time they leave the insured's custody.
  12. Loss while the property is being worn, except watches worn solely for the purpose of adjustment, by the insured or by an officer, director, agent, employee, servant, or messenger of the insured, or while it is in their custody for this purpose. The same exclusion applies to members of these individuals' families, friends, and relatives, dealers and other persons, firms or corporations engaged in the jewelry trade and their directors, officers, employees, servants, and messengers.
  13. Loss on property left in automobiles, motorcycles, and other vehicles, unless attended by the insured, a permanent employee, or a person whose sole duty it is to guard the vehicle. This exclusion does not apply, however, when the goods are in the custody of a common carrier or the post-office department as first class registered mail.
  14. Losses occurring while property is at any public exhibition promoted or financially assisted by any public authority or trade association.

15. Unexplained shortages, including goods claimed to have been forwarded in packages which reach the consignee in apparently good condition with seal unbroken.
16. Loss of goods when sent C.O.D. by any express line, with the privilege of inspection by the consignee before delivery.

**LIMIT OF LIABILITY.**—The company is liable for the amount stated in the policy for losses on the insured's premises. If goods are lost from windows, however, as a result of the smashing of the windows, the insured must bear 20% of each claim.

A maximum liability limit is set for outside limit coverage which applies to property in transit by express or first class registered mail (or air mail or air express if endorsed on the policy), or property deposited in the vault of a bank or safe deposit company, or which is in the possession of a customer or in the custody of a dealer in property described in the policy not employed by or associated with the insured. In addition, a maximum liability limit is placed on property elsewhere than on the premises of the insured which was not included in the previous clause. The effect of these clauses is to limit the company's maximum liability for losses on property outside the insured's premises, and on property while in transit in the custody of the insured's salesmen, employees, messengers, and members of the firm.

The company is not liable beyond the actual cash value of the property at the time of the loss, with proper deduction for depreciation. However, this amount cannot exceed the lowest figure placed upon the property in the insured's records existing at the time of the loss, nor the cost of repair or replacing the same with material of like kind and quality. No consideration is given to any antiquarian or historical value attached to the property. For claims in respect to pledged articles, the liability is limited to the amount actually loaned and unpaid plus the accrued interest at legal rates.

In case of the loss of property of others, the company has a right to adjust the loss with the owners of the property. If legal proceedings are taken to enforce a claim against the insured with respect to such loss, the company reserves the right to conduct and control the defense on behalf of the insured.

**OTHER INSURANCE.**—There is no coverage if at the time of loss any other insurance would then attach if the jeweler's block insurance had not been effected, except that the insurance will apply as excess insurance.

**DUTIES OF THE INSURED.**—To bind the company, the insured must make and observe certain warranties. He must agree to keep an itemized record of all property, including traveling salesmen's stocks. He

must also agree to maintain, insofar as possible, watchmen and other protection devices which are mentioned in his application for the policy.

The insured must agree to and cause others to submit to examinations under oath concerning all matters connected with a claim, and must agree to produce for examination all account books, bills, and invoices.

**ENDORSEMENTS.**—A number of endorsements may be used to amend policy provisions. These are as follows :

1. By endorsement, air mail and air express shipments may be covered. This endorsement requires air mail to be registered and air express shipments to be sealed.
2. Except when prohibited by statute, the policy may be endorsed to cover furniture, fixtures, machinery, tools, patterns, molds, models, and dies in the insured's premises only, against the risks of fire, burglary, and theft.
3. By endorsement, coverage may be extended to include money in the safe at the insured's premises. Liability attaches, however, only when the safe is actually broken open.
4. The company may eliminate, by endorsement, the clause requiring the insured to bear 20% of each loss caused by the smashing of a window.
5. By endorsement, the risk of fire at the insured's principal place of business may be specifically excluded if this coverage is not desired. In some states earthquake coverage is available.

**Bailee's Customers' Floater.**—It is desirable for such bailees as warehousemen, public storers, dyers, cleaners, laundrymen, and other custodians who perform services to the property of others to insure the goods entrusted to them. This insurance serves a dual purpose. It furnishes direct protection to the owner of the goods and thereby enables the bailee to attract customers whose patronage could not otherwise be obtainable. Furthermore, it permits the bailee to avoid troublesome and costly disputes with his customers when loss occurs and thus retain good will.

Generally these contracts appear as printed or typewritten endorsements attached to the inland transit policy, but it is not necessary to write the insurance in that manner. While bailee insurance may be written on various kinds of bailed property, the forms that will be discussed in this chapter are the following :

1. Laundry, cleaners', and dyers' floater.
2. Rug and carpet cleaners' floater.

3. Processors' floater.
4. Furrier's customers' floater.

**Laundry, Cleaners' and Dyers' Floater.**—The laundry, cleaners', and dyers' floater provides protection for all kinds of goods or articles accepted by the insured for processing from customers (a) while being transported to and from customers or the premises of the insured listed in the policy, and (b) while contained in any of the insured's premises listed in the policy. The policy generally covers the following types of perils:

1. Fire, including lightning.
2. Explosion.
3. Collision, that is, any accidental collision of the vehicle in which the property of the insured is carried with any other vehicle or object, including the overturning of the vehicle or the collapse of bridges.
4. Theft, burglary and holdup.
5. Tornado, cyclone, windstorm or water damage, including any loss or damage that may occur from hail, rain, sleet, or snow, whether or not driven by wind.
6. Flood, that is, the rising of rivers and streams while the goods or articles are in transit.
7. Sprinkler leakage.
8. Transportation risks, including public carriers or post-office department service.
9. Earthquake.
10. Strikes, riots, and civil commotion.
11. Confusion of goods resulting from any of the foregoing perils. Confusion of goods means the inability to identify the ownership of goods even though the goods have not been destroyed.

**EXCLUSIONS.**—There is no protection against any of the following contingencies:

1. Loss or damage caused by or resulting from any cleaning, laundering, or other processing.
2. Shortage or mysterious disappearance, unless caused by a peril insured against.
3. Theft of bundles left on delivery vehicles overnight.
4. On property held in storage at the direction of the customer, or property held over thirty days unless the property is covered by endorsement.
5. Infidelity or dishonesty of the insured or any of his employees or associates in business at any time of the day or night.
6. Any indirect or consequential loss.

7. War and similar perils, including atomic weapons whether in time of war or peace.

**ADJUSTMENT OF CLAIMS.**—The company has the option of adjusting any loss and either paying the insured for the account of whom it may concern or paying the customer directly.

Any claim for losses occurring at the same time and aggregating not more than a limited amount, may be adjusted by the insured. The company will reimburse the insured as soon as practicable upon receipt of satisfactory proof of loss.

The insured is required to keep an accurate record of his business and to report each month gross receipts, whether or not collected, for the preceding month in order to determine the premium charge for the month.

**LIMIT OF LIABILITY.**—The company's liability is limited to the amount which the insured is obliged to and actually does pay by reason of an insured peril. In no case does the liability exceed the cash value of the property at the time of loss, with proper deduction for depreciation. Furthermore, a limit is placed on the company's liability for any loss incurred at any one time.

Special clauses that may be found in this form are the following:

1. When solvents or cleaning fluids are used, the flash point of these solutions must be not less than 100° F.
2. If the articles to be cleaned have high values, such as fur coats, the insurance company may require that the vehicle in which the property is carried be equipped with an entirely closed body of good construction and suitable locks. The company will be liable in case of loss by theft only (a) when the body is securely locked, and (b) when there is visible evidence of the vehicle's having been forcibly broken into or if the entire vehicle should be stolen or driven away.

**Rug and Carpet Cleaners' Floater.**—This form covers all kinds of rugs, carpets, draperies, cushions, and all other goods and articles accepted by the insured for cleaning, renovating, repairing, sewing, or dyeing, and for such other processes as may be performed in the business of the insured.

The perils follow those of the laundry form and, in addition, pilferage is at times included. The exclusions, except storage, are similar to those of the cleaners' and dyers' form.

The liability of the company for the various articles may be limited as follows :

Domestic rugs or rolled carpets not exceeding . . . . .	\$ 2.00 per sq. ft.
Oriental or foreign rugs, including semiantiques, not exceeding . . . . .	10.00 per sq. ft.
Draperies not exceeding . . . . .	50.00 per set
Cushions not exceeding . . . . .	50.00 per cushion
Other articles not exceeding . . . . .	100.00 per article

If the insured accepts articles valued in excess of the limits specified, the insurance can be increased by the insured's reporting to the company, prior to the known loss, the higher value of the property on the day the insurance is to become effective, and the period the excess will remain in force. The higher value for insurance will apply only for the period declared by the insured.

**Processors' Floaters.**—There are many concerns which accept raw materials such as leather and furs for processing. Furs may be dressed and dyed. Silk may be sent to throwers, dyers, and weavers. A processor is a bailee, and he is therefore legally liable to his customers. If a loss should occur and the evidence indicated that the processor or his employee was negligent in causing the loss the processor would be required to reimburse his customer for the loss of the merchandise. The processor can protect himself through insurance against this legal liability hazard. The policy will cover while the property is in the custody of the processor, while being worked on, and while in transit to or from the owners of the property. The coverage available may be for specified perils, as those in the laundry, cleaners', and dyers' floater, or for all risk and subject to similar endorsements.

The following hazards are not covered by the all-risk policy : (1) infidelity of the employees of the insured, (2) mysterious disappearance, and (3) damage caused during the processing and resulting from such processing, except if due to a named peril such as fire, explosion, or change in temperature.

Some processors assume direct liability by contract with their customers and coverage is available for assumed liability. If the policy covers assumed liability, the processor's customers would be protected against the perils insured whether or not the loss was due to the processor's negligence but subject to the policy exclusions.

**Furrier's Customers' Floater.**—Furriers, storage companies, and department stores which accept furs from their customers are also legally designated as bailees. Like other bailees, they are responsible for goods which they hold if they or their employees are guilty of negligence.

These bailees, by special contract, usually assume all risk liability, subject to a few limitations for the furs entrusted to them. Protection against such hazards is provided by the furrier's customers' policy.

The policy covers (1) customers' furs or garments trimmed with fur, accepted for storage, alteration, repairing, cleaning, or remodeling, and for which the furrier issues a receipt under which he agrees to effect insurance on the property. (2) Other garments, textiles, and similar articles, customarily accepted for storage by garment storers, provided such property is similarly accepted by the insured for storage. The policy does not cover any stock which belongs to the insured or to any subsidiaries or affiliates of the insured.

Coverage is granted during transportation or otherwise while the property is in the custody or control of the insured for alteration, repairing, cleaning, remodeling, or preparation for storage or for return to customers. The policy also covers while the goods are in storage rooms, vaults, or safes at specified locations.

The policy provides for a stipulated amount of liability under the following circumstances :

1. At each location used for storage of the property of customers. This amount is further divided by providing a limit for merchandise in (a) vaults and storage rooms and (b) outside of vaults and storage rooms, such as workrooms and receiving rooms.
2. At each location which is not used for storage. For example, a furrier may have several branch stores where merchandise is accepted for storage or repairs. After the furs are collected at the branch stores, the merchandise is then sent to the storage vaults.
3. Merchandise while in transit.

The policy insures against all risks of loss or damage to the insured property, including the insured's legal liability. There is no coverage for any of the following :

1. Loss or damage occasioned by gradual deterioration, moth, vermin, inherent vice; or damage sustained due to any process or while actually being worked upon and resulting from the process, unless caused by fire or explosion.
2. War and kindred perils, including atomic weapons in time of peace or war.
3. Liability assumed by the insured under any agreement, express or implied, (a) to guarantee the results of processing or any work to be performed upon the property, or (b) to effect insurance upon the property in any amount except as provided by the policy.

4. Any amount of loss or damage on account of which the insured, in the absence of the insurance, would be entitled to indemnity under any applicable fidelity bond or similar undertaking.

PROVISIONS OF THE RECEIPT.—Since the assumed liability of the furrier depends on the receipt, the policy states the basis on which the receipt can be issued. Each receipt (other than a temporary or interim receipt) given to customers must provide for the following :

1. The customer accepts the receipt as correct in all respects, unless the customer notifies the insured in writing, within ten days after the date of issue of the agreement, of any error or irregularity.
2. The insured will have effected, for the benefit of the customer, insurance on each article listed in the receipt which must, in terms usual to the insurance, cover against loss by fire and theft for the value set opposite each item, which value must also be stated to be the limit of the insured's liability for any loss of or damage to the article.
3. The provisions of the receipt must inure to the benefit of the insurance company to the same extent that they inure to the benefit of the furrier.
4. The provisions of the receipt cannot extend in kind or amount the insurance provided by the policy.
5. The receipt supersedes any temporary or interim receipt given by the furrier.

Additional policy terms state the following provisions :

1. The furrier must use due diligence to maintain, during the period of the policy, such protective safeguards as are stated in the proposal for the policy.
2. No certifications, certificates, or policies of insurance covering the property insured may be issued by or through the insured except in the same company when permitted by endorsement. (Coverage for certificates will be discussed subsequently.)
3. Any loss at the option of the company may be paid to the insured or adjusted with and paid to the customer or the owner of the property.
4. In event of actual or threatened loss or damage to property insured, the company at its option may take such steps as the company deems necessary to protect, rehabilitate, or recondition the insured property, including the removal from the place of loss and the employment of independent contractors to do such work.
5. The insurance must not inure directly or indirectly to the benefit of any carrier or other bailee.
6. If there is any other insurance covering the property insured, whether prior, subsequent to, or simultaneous with the insurance, which in the absence of the insurance would cover the loss or damage covered, then the company is not liable for more than the excess

over and above the other insurance. This clause, however, does not apply to insurance effected by a customer or a member of the family of a customer of the insured. The existence of such insurance, or payment of a loss thereunder, does not constitute a defense to any claim otherwise payable under the policy, nor will such insurance be called on to contribute to any loss payable under the furrier's customers' policy.

7. The insured must submit, and so far as is within his power must cause all other persons interested in the property and members of the household and employees to submit, to examinations under oath by any persons named by the company, relative to any and all matters in connection with a claim. He must also produce for examination all books of account, bills, invoices and other vouchers or certified copies if originals be lost, at such reasonable time and place as may be designated by the company or its representatives, and permit extracts and copies to be made.
8. In order to determine the extent of risk and the amount of premium, the company requires the insured to keep an accurate record of all receipts issued. This record must contain the customer's name and address and a description of each insured article and its value.
9. The company is not liable for more than the amount stipulated in the customer's receipt as applying to each article, whether on account of legal liability or otherwise, or for more than the actual value of the property, or for more than the cost of repair or replacement of the property with materials of like kind and quality, whichever is least.

**FURRIER'S CUSTOMERS' LEGAL LIABILITY ENDORSEMENT.**—The customer generally pays the furrier a storage charge based upon the customer's declared value of the article. At the request of his customer, a furrier may issue a receipt for an article at less than the actual value. For example, the actual value of the article may be \$800, but the receipt may be issued for \$100. Under the furrier's customers' policy, the furrier would thus insure for the amount requested by the customer, that is, \$100. There is a possibility that the furrier might be held legally liable for the full amount. Coverage can be obtained against this contingency by the legal liability endorsement attached to the furrier's customers' policy. Under this endorsement the company agrees to cover the liability imposed on the insured as a bailee by law for the amount in excess of that stipulated in the insured's receipt. The endorsement does not apply to any of the following contingencies :

1. Liability for property of customers of other bailees.
2. Liability assumed by the insured under any agreement, express or implied.
3. Liability for loss or damage occasioned by gradual deterioration, moth, vermin, or inherent vice, or by processing or any work upon the property unless caused by fire or explosion.

4. War and kindred perils, including atomic weapons in time of peace or war.

The endorsement is subject to a stipulated limit for each article, regardless of its value, and subject to a stipulated limit for the entire liability in any one loss.

In event of loss or damage which might produce a claim against the insured for damages, or if claim is made or suit is brought against the insured, written notice must be given by or on behalf of the insured to the company agents as soon as practicable. The notice must contain particulars sufficient to identify the insured and also all reasonably obtainable information respecting the loss or damage claimed and the time, place, and cause. The insured must immediately forward to the company every demand, notice, summons, or other process received by him or his representatives.

The insured must cooperate with the company and, at the company's request, attend hearings and trials and assist in effecting settlements, procuring and giving evidence, obtaining the attendance of witnesses, and in the conduct of suits. The insured must not, except at his own cost, voluntarily make any payment, assume any obligation, or incur any expense without the written consent of the company. The company reserves the right to compromise or contest, at its option, on behalf of and in the name of but without expense to the insured, any and all claims.

**STORAGE AND REPAIRS CHARGES.**—In the event of a casualty, the furrier may also suffer loss of storage charges and also charges for repairing and cleaning of the articles damaged or destroyed or lost. Coverage for these charges can be obtained by endorsement to the furrier's customers' policy.

**DUPLICATE COVERAGE.**—Under the standard fire insurance policy and extended coverage, all merchandise owned by the insured or held by the insured in trust would be covered under the policy. In order to avoid duplicate coverage, the fire and extended coverage policy should be written with an endorsement excluding property insured under the furrier's customers' policy.

**PERSONAL FUR CERTIFICATE.**—The owner of a fur coat who places a coat in storage can obtain a certificate of insurance, in certain states, from the furrier, issued by the same company that issues the fur storage policy covering the coat during the entire policy period in all situations or excluding the period of time the coat is in storage.

The certificate covers against loss of all risk except gradual deterioration, moth, vermin, inherent vice, or damage sustained due to any process

or while being actually worked upon and resulting therefrom, war, invasion, hostilities, rebellion, insurrection, confiscation by order of any government, public authority, or risks of contraband or illegal transportation or trade.

As in other forms of insurance, the insured must warrant that the insurance will in no wise inure directly or indirectly to the benefit of any carrier or other bailee.

**Wool Growers' Floater.**—Growers of wool and similar raw commodities can obtain broad coverage against loss of these commodities through the use of the wool growers' floater. This form provides protection to (1) growers and (2) warehousemen who store the commodities, including any liability assumed by the warehouseman in excess of legal liability.

The policy is issued by attaching the transportation floater policy. The property covered includes wool, mohair, and sheep pelts, and bags and bagging, the property of the insured or held by the insured in trust or on commission, or on consignment, or on which the insured may have made advances or sold but not delivered.

Liability of the company continues while at and in transit from the shearing plant or corral, located as described in the policy, and in warehouses incidental to transportation to places in the continental United States and Canada, only while at the risk of the insured but not after delivery to the premises of the buyer or the warehouse designated by the buyer.

Coverage is provided under the following circumstances :

1. While at the shearing plant, corral, or warehouse against loss or damage directly caused by fire, lightning, cloudburst, flood (that is, rising navigable waters), and explosion.
2. While on land conveyances against loss or damage directly caused by fire, lightning, cloudburst, flood (that is, rising navigable waters), collision, upset, or overturn of conveying vehicle, and collapse of bridges.
3. While waterborne (excluding all ocean or coastwise shipments) against loss or damage directly caused by fire, lightning, stranding, sinking, burning, or collision of the vessel or craft with any external substance (ice included) other than water.

The following endorsements are also available :

1. Theft of an entire bag or shipping package, while in transit only.
2. Theft of an entire bag or shipping package while in transit and at shearing plant, corral, and warehouse.
3. Tornado and windstorm.
4. Strikes, riots, and civil commotion.

**Floor-Plan Floater.**—Many dealers in merchandise purchase goods subject to a “floor plan” or a similar plan, under which the merchant borrows money from a bank or other lending institution with which to pay for the merchandise. The lending institution may desire insurance protection while the merchandise is in the possession of the merchant. If the following conditions can be satisfactorily shown to exist, such insurance is available if

1. The merchandise is specifically identifiable as encumbered to the bank or lending institution.
2. The dealer’s right to sell or otherwise dispose of the merchandise is conditioned upon its being released from encumbrance by the bank or lending institution.
3. Provided the policy covers merchandise in transit and does not extend beyond the termination of the dealer’s interest.

Insurance is not available for all types of merchandise. Floor-plan insurance is not extended to automobiles and motor vehicles customarily insured under the automobile form of policy, watercraft, aircraft, livestock, jewelry, furs or other articles of personal adornment, or merchandise for which the dealer’s collateral is the stock or inventory as distinguished from merchandise specifically identifiable as encumbered to the lending institution. The term “dealer” does not include an individual, firm, or corporation engaged in manufacturing, blending, aging, rectifying, or any other form of processing for the trade.

The floor-plan policy can be written to cover the interest of the lending institution or the interest of the lending institution and the dealer. The principal provisions of the floor-plan policy are the following:

1. The merchandise is insured within the continental United States and Canada (excluding shipments via the Panama Canal) provided, however, liability attaches only when the merchandise becomes at risk of the insured and ceases upon termination of the interest of the lending institution, or when such property is sold and delivered or otherwise disposed of by the dealer, whichever may occur first.
2. The policy is an all-risk coverage. However, there is no liability for any of the following:
  - (a) War and kindred perils, including atomic weapons in time of peace or war, seizure, detention, contraband, illicit transportation or trade, insurrection, or rebellion.
  - (b) Loss or damage to electrical appliances or devices of any kind, including wiring, arising from electrical injury or disturbances

from artificial causes, unless fire ensues and then only for direct loss or damage caused by such ensuing fire.

- (c) Loss or damage caused by or resulting from mechanical breakdown, inherent vice or defect, wear and tear, or gradual deterioration.
  - (d) Loss or damage resulting from delay, loss of market, bankruptcy, foreclosure, or similar proceedings.
  - (e) Loss or damage resulting from misappropriation, secretion, conversion, infidelity or any dishonest act on the part of the insured or other party of interest, his or their employees or agents or any person or persons to whom the merchandise may be entrusted (carriers for hire excepted).
  - (f) Breakage of glass or similar fragile merchandise unless caused by fire, lightning, explosion, cyclone, tornado, thieves, or overturning, derailment, or collision of the conveyance on which the merchandise is being transported.
  - (g) Loss or damage resulting from rain, hail, sleet, snow, or freezing with respect to merchandise while in the open, except while in transit.
  - (h) Loss or damage caused by or resulting from flood (meaning thereby rising waters) except while in transit. (By an endorsement flood coverage is available.)
3. Under the single interest policy, the merchandise will be valued at an amount not to exceed the cost to repair or replace the merchandise with material of like kind and quality but in no event to exceed (a) as respects merchandise not sold by the dealer, the purchase price to the dealer, including transportation charges; (b) as respects merchandise sold by the dealer but not delivered, the dealer's net selling price after all allowances and discounts.

Under the limited form, which is limited solely to lending institutions, the company is not liable for any loss unless and until the interest of the insured in the lost or damaged merchandise has been impaired, and then only to an amount not exceeding the extent of the impairment or the amount of outstanding balance of the merchandise lost or damaged, whichever amount is less. Under the dual interest form, the company is not liable for a greater proportion of any loss than the amount of the interest of the insured in the merchandise bears to the value of the merchandise.

- 4. The insured must keep an accurate record of all merchandise insured including (a) actual locations and the amount of purchase price of the merchandise to the dealer; (b) merchandise in transit and the amount of purchase price to the dealer; (c) transportation charges applicable; (d) outstanding balances.
- 5. The insurance will not be prejudiced by any inadvertent omission in reporting or unintentional error in amount, if prompt notice is

given to the company as soon as the omission or error becomes known and deficiency of premium, if any, be made good.

6. As in various inland marine policies, there are clauses in the floor-plan policy referring to machinery, other insurance, keeping of records, right of company to audit books, notice of loss, sue and labor, appraisal of loss in case of disagreement, subrogation, and benefit of carrier.

**Pattern Floater.**—Business firms engaged in the making of patterns, tracings, drawings, blueprints, and similar material may have occasion to permit other firms to use the material. Protection against loss of such articles while in transit and away from the owner's premises is provided by the pattern floater which is attached to the transportation floater.

This policy covers upon live patterns, drawings, tracings, blueprints, coreboxes, flasks, fallow-boards, casts, and dies, including packages and containers, the property of the insured or the property of others, held in trust or on consignment or for which the insured may be held legally liable while the goods or merchandise is at the risk of the insured anywhere in the continental United States or Canada.

The policy covers under the following circumstances :

1. While in transit by rail, express, or public truckmen, against direct loss or damage caused by fire, lightning, cyclone, tornado, wind-storm, flood (meaning rising navigable waters), including the collision, overturn, or derailment of the transporting conveyance.
2. While located in or on any premises of others, against direct loss or damage caused by fire, lightning, cyclone, tornado, or windstorm, sprinkler leakage, and flood (meaning rising navigable water:).

The company is not liable for loss under the following circumstances :

1. While in or on any premises owned, occupied, leased, or operated by the insured.
2. If the articles are specifically insured, except for the excess over and above the amount of any specific insurance.
3. War and kindred perils, including atomic weapons in time of peace or war.

**LIMITS.**—In view of the fact that the articles may be with different firms, the policy provides that the company is not liable for a greater proportion of any loss or damage to the property than the sum insured at all places and in transit bears to 100% of the actual aggregate value of the property at all places and in transit at the time the loss occurs.

The policy is also subject to a limit of liability for loss in any one casualty, as well as a limit of liability at any one time during the course of transit.

**Installment Floater.**—Furniture dealers and other business concerns may sell merchandise on the installment plan. Other concerns may lease property to customers. Under such circumstances the vendor or lessor has a continuing interest in the property. Protection against loss to the vendor or lessor for property while in the possession of the customer can be obtained through the “installment form—single interest” or the “installment form—dual interest.”

Under the single interest form protection is limited to the vendor or lessor of the merchandise, whereas the dual interest form would in addition protect the purchaser or lessee.

The provisions of the single interest form are as follows :

1. The insurance covers only the insured's interest in such property to the extent of the unpaid installments under the contract of sale or lease.
2. The policy attaches from the time the merchandise passes into the shipping room of the insured for packing and awaiting shipment to customers, limited to a short period, such as ten days, in the shipping room, and continues thereafter while in transit in custody of common carriers or on the insured's trucks or teams and while on the premises of their customers.
3. The insurance also covers (a) while in transit from the customers' premises to other locations while in custody of common carriers or on the insured's trucks or teams, and (b) while the merchandise is being repaired or adjusted in the insured's premises or in other locations to which the property may be consigned by order of the insured, but in no event exceeding a limited period, such as ten days, at any one time.

The perils covered are the following :

1. Fire and lightning.
2. Loss or damage caused by collision (the coming together of cars during coupling is not deemed a collision), derailment or overturning of a vehicle, collapse of bridges, while being transported by land conveyances.
3. Loss or damage caused by stranding, sinking, or collision, including general average and salvage charges while on ferries or in railroad cars on transfers in connection with land conveyances.

The policy does not insure :

1. Against loss or damage to goods by delay, wet, or dampness, or by being marred, scratched, spotted, discolored, moulded, rusted, frosted,

rotted, soured, steamed, or changed in flavor unless the direct result of a peril insured against.

2. Against loss or damage caused by strikers, locked-out workmen or persons taking part in labor disturbances, or arising from riot, civil commotion, capture, seizure, or detention, or from any attempt thereat, or the consequences thereof, or the direct or remote consequences of any hostility arising from the acts of any government, people, or persons whatsoever (ordinary piracy excepted), whether on account of any illicit or prohibited trade, or any trade in articles contraband of war, or the violation of any port regulation or otherwise, or from loss or damage resulting from measures or operations incident to war, whether before or after declared.
3. Against loss or damage to property insured while waterborne, except while on ferries or in railroad cars on transfers in connection with land conveyances.
4. Against loss or damage caused by the neglect of the insured to use all reasonable means to save and preserve the property at and after any disaster insured against, or when the property is endangered by fire in neighboring premises.
5. Against loss or damage due to the dropping or improper operation of any elevator.
6. Against loss or damage due to short-circuiting, blowout, or other electrical disturbances within the article insured.
7. Against loss or damage to property insured, wherever located, upon which the insured or any other party having an interest may have insurance which would attach if the policy had not been issued, except only for an amount in excess of such other insurance, and then only to the extent of the insured's interest in the property. However, insurance covering ordinary household furniture effected by the customer of the insured is not to be considered specific insurance within the meaning of the policy.

The company is not liable for more than a stipulated sum in any one casualty, nor for more than a stipulated sum at any one purchaser's premises. The liability of the insurance company is limited to the actual cost of repairing, or, if necessary, replacing the goods or parts damaged or destroyed for the actual value of the property insured, with proper deduction for depreciation, howsoever caused, and further limited by the amount of the unpaid installments.

Under the dual interest form, the interest of the vendor as well as the purchaser is protected. In the event of a total loss of any article which is replaced by the vendor, the company is liable for the retail value of the article with proper deduction for depreciation.

**Contractors' Equipment Floater.**—Contractors' equipment, which may be transported from place to place on various jobs, is subject to

many hazards. Coverage for such equipment is provided by the contractors' equipment floater form which is attached to the schedule floater policy.

The policy insures the body and running gear of the property, including equipment while attached to or located on the equipment limited to specified amounts for each of the articles. A schedule must be prepared describing each piece of property, the manufacturer, identifying marks and numbers, and the amount of insurance required.

The perils covered by the policy are the following :

1. Fire and lightning.
2. Explosion, excepting explosion originating within steam boilers or internal explosion.
3. Cyclone, tornado, or windstorm.
4. Flood (meaning rising waters).
5. Collapse of bridges.
6. Collision, derailment, or overturning of conveyances while the insured property is being transported thereon.
7. Theft.
8. Collision, landslide, upset, or overturning of gasoline, steam, and electrically operated machines.

Under the policy there is no coverage for any of the following :

1. Loss or damage occasioned by the weight of a load exceeding the registered lifting capacity of the machine.
2. Loss or damage, except by fire, while the insured property is waterborne, unless endorsed in the policy.
3. Loss or damage to automobiles or similar conveyances, plans, blueprints, designs, or specifications, or to underground property or property while located underground.
4. Loss or damage to any property which has become a permanent part of any structure.
5. Loss or damage to dynamos, exciters, lamps, switches, motors, or other electrical appliances or devices caused by electrical injury or disturbances whether from artificial or natural causes, unless fire ensues, and then for the loss by fire only.
6. Wear, tear, and gradual depreciation.
7. Infidelity of insured's employees or persons to whom the insured property is entrusted.

The policy is generally written with a deductible applicable to each loss and damage. Usually a deductible of \$25 is required for articles insured for less than \$2,500, and \$50 on articles insured for more than \$2,500.

**Installation Floater.**—Manufacturers of machinery and equipment frequently agree to install the equipment on the premises of customers.

An illustration of manufacturers who follow this practice is manufacturers of elevators and power plants. There is a possibility of loss while the machinery is being transported to the customer and while the machinery is being installed at the premises of the customer before acceptance by the customer. Coverage against such loss can be obtained by the installation floater form attached to the transportation floater policy.

The policy covers the equipment while in transit and in the custody of railroads and connecting conveyances, and on premises of installation while awaiting or during installation until completely installed and accepted, or the interest of the insured ceases, whichever occurs first. The insurance does not apply to any other property or stock of the insured, whether on the premises of the insured or in storage or elsewhere.

The perils covered by the policy are (1) fire and lightning, (2) explosion (other than boiler explosion), (3) windstorm, cyclone, tornado, (4) collision, overturn, or derailment of conveyances, (5) while waterborne by ferry or steamer, stranding, sinking, fire, or collision (including general average and salvage charges), (6) strike, riot, and civil commotion, including vandalism and malicious mischief, theft, pilferage, breakage or destruction caused as a result of a strike, riot, or civil commotion.

Coverage can also be obtained for other specified perils. The policy does not insure against loss or damage caused by or resulting from:

1. Short circuit or other electrical disturbance (except lightning) within any electrically equipped unit, except for ensuing fire damage if any.
2. War and kindred perils.
3. Delay, deterioration, or loss of market.
4. Loss of possession arising out of illegal occupation of installation premises, or of any premises containing the insured property, but this does not exclude liability for damage to or removal of the insured property during such occupation.

**AGREEMENTS.**—The insurance is subject to a specified limit in any one place, and a specified limit in any one disaster. As the premium depends upon the amount of risk, the insured must keep an accurate record showing the total daily values of all property insured, which record must be furnished to the company.

**Neon Sign Floater.**—When attached to the scheduled property floater, the electric sign form provides protection for electric signs, such as neon and similar tube advertising signs. Each sign covered must be listed in a schedule showing type, lettering, and actual value.

This endorsement covers all risks, except those mentioned specifically below, occurring within the Continental United States and Canada.

**EXCLUSIONS.**—The following hazards are excluded from coverage :

1. Loss or damage caused by wear and tear, gradual deterioration.
2. Loss by faulty manufacture, installation, or occasioned by the inherent character of the insured property.
3. Breakage during transportation unless caused by fire, lightning, collision, derailment, or overturning of vehicle.
4. Breakage during installation, repairing, or dismantling.
5. Mechanical breakdown.
6. To electrical apparatus caused by electricity, other than lightning, unless fire ensues, and then only for loss or damage by such ensuing fire.
7. By neglect of the insured to use all reasonable means to save and preserve the property at and after any disaster insured against.
8. Dampness of atmosphere or extremes of temperature.
9. War and kindred perils.

Each claim for loss or damage is adjusted separately. From the amount of each adjusted claim, a sum equivalent to 5% of the amount of insurance is deducted, but not less than \$10 nor more than \$100 on any one item. Liability is determined by the actual cash value of the insured property at the time of loss.

**Manufacturer's Output Policy.**—Many manufacturers have occasion, at some one time, to have a considerable amount of their property at places elsewhere than on the premises of their manufacturing plants. Property may be in the hands of salesmen or field agents, at the premises of processors, in storage warehouses owned by the manufacturer or by others, in transit by any means, in the mails, or in process of installation in other's premises.

The manufacturer's output policy affords the manufacturer all risk coverage for almost all types of personal property while within the limits of the United States, Canada, Alaska, or temporarily outside the United States and Canada while in transit by air or sea between points or places in the two countries, except for waterborne shipments by way of the Panama Canal, and waterborne or airborne shipment to and from Alaska.

Property insured by the policy includes :

stock, raw materials, wrapping and packing materials, furniture and fixtures, and improvements and betterments to buildings in which the insured is a tenant, machinery and equipment, and parts, supplies, dies, molds, models, patterns, scientific instruments, salesmen's samples, property designed for or on exhibit, accounts, books, advertising matter, deeds, invoices, bills of lading, warehouse receipts, plans, blueprints, specifications, files, records, manuscripts and other documents, experimental property, automobiles or any other vehicles of any type.

No coverage is granted for any insured property except automobiles and other vehicles while the property is on the premises of any manufacturing plant of the insured. The policy will also cover any property away from the insured's manufacturing plants for which the insured may be liable or has assumed liability as a bailee.

The policy covers for all risks of physical loss or damage from any external cause with the following exceptions :

1. War and kindred perils, including atomic weapons in time of peace or war.
2. Infidelity or dishonesty of the employees of the insured.
3. Earthquake, unless the property lost or damaged is in transit. The earthquake exclusion does not apply to automotive vehicles and rolling stock, wherever located.
4. Explosion, rupture or bursting of steam boilers, steam pipes, steam turbines, steam engines, flywheels owned, operated, or controlled by the insured.
5. Collision or overturning of automobiles, automotive trucks and trailers which are being operated under their own power, or towed, whether or not in motion at the time of the loss or damage. However, this exclusion applies only to the vehicles and not to any other property of the insured or to the contents of the vehicles.

Property which is not insured includes :

1. Currency, money, notes, or securities.
2. Property while covered under import or export ocean marine policies.
3. Animals, aircraft, boats, or other water conveyances.
4. Property sold by the insured under a conditional sales agreement, or installment payment or other deferred payment plan, unless such coverage is specifically added by endorsement.

The company's liability is limited to a specific amount at any one location. A separate limit of liability applies to any loss while in transit in any one conveyance. There is a limit to the total liability of the company for all losses in any one disaster involving more than one conveyance. There is a separate limit of liability for any flood loss at any one location, subject to a further limit for all damage caused by any one flood affecting more than one location. Any property at any convention or fair is also subject to a stated limit of liability. If there is any specific insurance covering the insured property, the manufacturer's output policy is excess insurance over specific insurance whether collectible or not.

The policy is written on a monthly reporting form under which the insured reports, at the end of each month, the total of values at risk under the policy on the last business day of the preceding month. No property is specifically described in the policy or in any report of the val-

ues insured. The premium is based on the insured's monthly report of values, with an allowance made for specific insurance, if any.

The insurance company may require an insured to carry specific insurance on any property insured and for any peril insured. If the insured fails to purchase any required specific insurance, the amount of any such required specific insurance is deducted from any loss payment as if the specific insurance had actually been purchased by the insured.

The policy is not subject to coinsurance requirements. Any errors in reporting the values insured will not operate to prejudice the insured, but the insured must correct any errors or omissions as soon as discovered.

The insured must keep his records open to inspection by the insurance company for twelve months after the end of the policy year or after the policy is terminated. The policy can be canceled only upon 90 days' notice by either the insured or the company.

The bases used to value the property are as follows :

1. On finished goods manufactured by the insured, his factory price, plus freight and handling, if any, less all discounts and unincurred expenses and any markup for wholesale distribution and retail sales, for which the goods could have been sold, had no loss occurred.
2. On raw stock, stock in process, and packaging material at the inventory value.
3. Improvements and betterments at replacement cost, less physical depreciation at the time and place of the loss, if actually replaced at the insured's expense within two years from the date of the loss, and if not so replaced, at the remaining unamortized value.
4. Accounts, manuscripts, mechanical drawings, and other records and documents not specifically excluded, at value "blank" plus cost of transcribing.
5. Exhibitions and displays, at the cost to the insured.
6. Patterns and dies, at replacement cost if actually replaced, otherwise at actual cash value.
7. Automobiles, trucks, machinery, equipment and any other property not specified above, at actual cash value at time and place of loss or of reporting of values.

The policy has provisions similar to other types of insurance relating to notice and proof of loss, appraisal, assistance, and cooperation of the insured, payment of losses, misrepresentation and fraud, benefits to carriers or bailees, subrogation, and suit against the company.

**Horse and Wagon Floater.**—Although the automobile is the common method of transportation used at the present time, there are many concerns which continue to use horses and wagons. Examples of such concerns are dairies, bakeries, ice and coal firms.

Attached to the schedule property floater, the horse and wagon form

is designed to cover horses, mules, horse- and mule-drawn vehicles, harness, saddlery, liveries, blankets and equipment, and other livestock. Insurance is limited to a specified value and to losses occurring within the limits of the continental United States and Canada. Geographical coverage, however, may be extended by endorsement.

**COVERAGE.**—The policy covers the loss of horses and mules against death and destruction only, and damages to vehicles and equipment caused directly by insured perils.

The following perils are covered by the horse and wagon floater :

1. Fire and lightning.
2. Collision, derailment, and overturning of rail or motor vehicles. It should be noted that the coming together of railroad cars during coupling operations is not deemed a collision.
3. Rising of waters and collapse of bridges or culverts.
4. Stranding, sinking, burning, or collision of vessels, including general average and salvage charges.

**EXCLUSIONS.**—As in many inland marine floaters, the horse and wagon floater excludes losses resulting from civil commotion, strikes, lockouts, riots, labor disturbances, war hazards, illicit or prohibited trade, and confiscation by order of any government or other public authority. Property is not covered while on the grounds of any public race track and horses and mules are not insured while in any aircraft.

The following additional coverages are available :

1. Windstorm, hail, explosion, and aircraft. The aircraft clause is nevertheless subject to the limitation on horses and mules in an aircraft.
2. Theft.
3. Collision, with or without a \$25 deductible clause, with any land conveyance other than the conveyance on which the property is being transported.
4. Accident to land conveyances.
5. Earthquake.
6. Coverage at race tracks.

**Livestock Floater.**—As explained in Chapter 10, a livestock policy is available for prize animals, race horses, and other high-priced animals. For various types of farm animals, a livestock floater can be purchased. The floater is designed to afford protection against loss of farm animals other than prize animals, race horses, and similar high-priced animals. The form insures cattle, sheep, and hogs, horses and mules (used primarily for farm work). A limit of liability is specified for each type of animal insured. Animals may be insured specifically if desired, or a total amount of insurance may be set for any one type of animal. However,

the company is not liable for more than the actual cash value at the time of the loss.

**COVERAGE.**—The livestock floater covers within the Continental United States and Canada against death or destruction of an insured animal resulting from or made necessary by fire and lightning, windstorm, hail, explosion, earthquake, riot, strike or civil commotion, collapse of bridges or culverts, flood, collision, overturn or derailment of any conveying vehicle, smoke due to the faulty operation of a heating or cooking unit when such unit is connected to a chimney by a smokepipe, but excluding smoke from fireplaces or industrial apparatus, aircraft and objects falling from aircraft, stranding, sinking, burning, or collision of vessels, and theft.

**NEW ACQUISITION CLAUSE.**—As the insured may acquire additional livestock during the policy period, the policy automatically covers any additional livestock acquired of the type and class already insured for an amount not exceeding the limit of liability specified in the policy for that class of animal. Furthermore, for any one type of animal the automatic insurance may not exceed 25% of the amount of insurance already on that class of animal. The insured must report any new acquisitions to the company within 30 days of acquisition and pay any required additional premium.

**OPTIONAL COVERAGES.**—The livestock floater may be broadened to cover additional hazards known as “optional coverages” upon the payment of an extra premium. The optional coverages include loss caused by:

1. Accidental shooting except by the insured or employees of the insured.
2. Drowning.
3. Artificial electricity.
4. Attack by dogs or wild animals.
5. Collapse of buildings.

If desired, the policy may be written with an 80% average clause which provides that the insurance company is not liable for a greater proportion of any loss than the amount insured bears to 80% of the actual cash value of the property insured at the time of the loss.

**EXCLUSIONS.**—The policy does not insure losses caused by:

1. Escape of any insured animal.
2. Mysterious disappearance.
3. Collision with vehicles owned or operated by the insured or any tenant of the insured.

4. Infidelity of the employees of the insured or any person to whom the insured animals are entrusted (carriers for hire excepted).
5. War and kindred perils, including atomic weapons in time of peace or war.

Insurance under a livestock floater is excess insurance over any other valid and collectible insurance.

**Mobile Agricultural Machinery and Equipment Floater.**—The loss of an agricultural machine by a farmer can be covered by the mobile machinery and equipment floater.

Attached to the schedule property floater, the form is designed to cover agricultural machinery which is not for sale or consignment, or in course of manufacture, which is in the control or custody of persons who intend to use the property for the purpose for which the machine was manufactured or created. Property which cannot be insured under this form includes self-propelled combines used for hire, that is, custom work, automobiles, trucks, motorcycles, aircraft, watercraft, portable sawmills or machinery and equipment used in logging or forestry operations. Coverage is limited to the Continental United States and Canada, but the geographical coverage may be extended by endorsement.

The policy covers each specified agricultural machine and piece of equipment. Any newly acquired equipment is covered automatically if reported to the company within 30 days, but for not more than 25% of the total amount of insurance on the scheduled items.

**COVERAGE.**—The perils insured are all risks of physical loss or damage from any external cause except loss or damage caused by:

1. Wear, tear, gradual deterioration, inherent vice, latent defects, mechanical breakdown, electrical disturbance from artificial causes to electrical equipment, corrosion, rust, dampness, freezing or extremes of temperature.
2. Repairing, adjusting, servicing or maintenance operations, except for ensuing fire or explosion damage, if any.
3. Infidelity of employees or any person to whom the property is entrusted (carriers for hire excepted).
4. Loss or damage to tires or tubes unless caused by fire, windstorm, or theft, or caused at the same time as any loss or damage covered by the policy.
5. War or kindred perils, including atomic weapons in time of peace or war.

**DEDUCTIBLE CLAUSE.**—From the amount of each loss, \$50 is deducted except for loss or damage caused by fire, lightning, windstorm, hail, aircraft, smoke, theft, explosion, earthquake, collapse of bridges or culverts, collision or derailment of vehicles transporting the insured

property; riot, strike and civil commotion, and stranding, sinking, burning or collision of vessels (including general average and salvage charges incurred). The deductible clause can be eliminated by endorsement.

The company is liable for no more than that proportion of any loss that the amount insured under the policy bears to a stipulated percentage of the actual cash value of the property at the time of any loss.

**Bridge Builder's Risk Policy.**—During the course of construction, bridge structures may be destroyed due to various perils. Protection against specified perils is available through the bridge builder's risk form. In addition to coverage for damage to the bridge, the policy also covers the following:

1. Materials, equipment, and supplies intended to become a part of such property.
2. Temporary trestles and similar structures.

These are covered only while at the site of the operation.

The perils covered by the policy are fire, lightning, flood, rising waters, ice, explosion, tornado, windstorm, earthquake, and collision (but excluding loss or damage caused by collision with construction material or contractor's construction equipment).

**PERILS EXCLUDED.**—There is no coverage for any of the following:

1. War and kindred perils, including atomic weapons in time of peace or war.
2. Loss, damage, or expense caused by or arising from strikes, lock-outs, labor disturbances, riots, civil commotions, sabotage, vandalism, or malicious mischief.
3. Loss, damage, or expense caused by or arising from the suspension of construction of the property occasioned by any ordinance or law or any order of governmental or municipal authority or by suspension, lapse, termination, or cancellation of any license, lease, or permit, or by any injunction, or process of court, unless such suspension of construction is due entirely to damage to the property during the policy term from a peril insured against.
4. Loss, damage, or expense caused by or arising from the neglect of the insured to use all reasonable means to save and preserve the property at and after any loss or damage.
5. Any loss or expense caused by or arising from delay in completion of construction of the property.
6. Loss of revenue.

The entire policy will be void unless otherwise provided by agreement in writing if any of the following contingencies prevail :

1. If the general design or method of construction is materially altered or changed during the policy term.
2. If any change takes place in the interest, title, or possession of the subject of insurance.
3. If the policy is assigned or transferred.

**SPECIAL AGREEMENTS.—**

1. Since the policy insures the bridge during the course of construction, it provides insurance in increasing amounts as the value of the property increases.
2. On the effective date of the policy and periodically thereafter during the currency of the policy, the insured must prepare statements showing the value of the property covered as follows :
  - (a) As of the last day of each month.
  - (b) As of the date of expiration or termination of the policy.
  - (c) If a loss occurs, a similar statement as of date of loss. These statements must be furnished to the company within 15 days from the various respective dates. Failure to furnish any statement renders the policy null and void as regards any increase over the value last reported.
3. The insured must insure for 100% of the value of the property. Therefore the company is not liable for more than the company's percentage of that proportion of the actual loss sustained which the last reported value of the property bears to the actual value of the property as of the date for which such values were reported.
4. In order to avoid the payment of small losses, the policy is subject to deductible percentage of at least 1% of the total amount at risk at the time of the loss, as well as a minimum amount of at least \$1,000. This deductible clause does not apply in the event of total loss. The deductible amount can be increased at the request of the insured.
5. The policy contains provisions similar to the fire insurance policy referring to the right of replacement by the insurance company, appraisal, proof of loss, filing of claim, cancellation, and concealment of material facts.

**Bridge Property Damage Policy.—**After the bridge has been completed the governmental authority or other authority owning the bridge can obtain coverage against damage through the bridge property damage form. This policy provides coverage against direct physical loss or damage. The policy does not insure against loss or damage due to any of the following :

1. Inherent defect, wear and tear, gradual deterioration, or expansion or contraction due to changes in temperature, unless resulting in

collapse of the bridge or a material part of the property. However, under no circumstances will the company be liable for loss or damage caused, or contributed to, by failure of the insured to keep and maintain the property in a thorough state of repair.

2. Strikes, lockouts, labor disturbances, riots, civil commotions, sabotage, vandalism, malicious mischief, or the acts of any person or persons taking part in any such occurrence or disorder.
3. Neglect of the insured to use reasonable means to save and preserve the property at the time of and after any loss or damage.
4. War and kindred perils, including atomic weapons in time of peace or war.

The bridge property damage policy can be endorsed to provide coverage for losses caused by strike, riot, or civil commotion, or losses caused by strike, riot, civil commotion, vandalism, or malicious mischief, and sabotage. Coverage can also be provided for the cost of removal of any debris, including the cost of demolition of any part of the insured property no longer useful, provided that the insured is required by law to remove or demolish the property. The debris removal clause may also provide coverage for the cost of removal of debris or demolition of any part of the insured property no longer useful for the purpose for which it was intended. The debris removal endorsement can provide that any amount payable under the endorsement is part of the amount of the insurance on the bridge, or is additional insurance.

As in the bridge builder's risk form, the policy contains clauses in reference to change in character of property or design, title, assignment, replacement, appraisal, proof of loss, and suit. The insured is required to carry insurance on 80% of the actual cash value of the property.

**Bridge Use and Occupancy Policy.**—During the course of the use of the bridge, an accident may occur which would prevent its use and until the bridge is again repaired there would be a loss of revenue when tolls are charged. Protection against such loss of income for the days of suspension of use can be obtained through the bridge use and occupancy policy per diem form.

The policy provides protection against loss of revenue resulting from necessary interruption, total or partial, of the use of the property, resulting from direct physical loss or damage occurring during the term of the policy to the property. There is no protection against loss of revenue from any of the following:

1. Inherent defect, wear and tear, gradual deterioration, or expansion or contraction due to changes of temperature, unless resulting in the collapse of the bridge or a material part of the property. However, under no circumstances will the company be liable for loss of revenue

- caused, or contributed to, by failure of the insured to keep and maintain the property in a thorough state of repair.
2. Neglect of the insured to use reasonable means to save and preserve the property at the time of and after any loss or damage.
  3. Failure or breakdown of machinery or accessories, unless resulting from an external cause which is not excluded by the policy.
  4. Suspension of use of the property by governmental or municipal authority, unless such suspension of use is occasioned by direct physical loss or damage to the bridge from an external cause which is not excluded by the policy.
  5. Suspension of use of the property which may be occasioned by (or to the extent that same may be increased by) any ordinance or law, governmental or municipal order, regulating or prohibiting construction or repair of the property or by the suspension, lapse, cancellation of, refusal of, or delay in the granting of any license, lease, or permit or by any injunction or process of court.
  6. Strikes, lockouts, labor disturbances, riots, civil commotions, sabotage, vandalism, malicious mischief, or the acts of any person or persons taking part in any such occurrence or disorder.
  7. War and kindred perils, including atomic weapons in time of peace or war.

A bridge use and occupancy policy can be endorsed to cover against losses caused by strikes, riots, or civil commotion and vandalism, malicious mischief, and sabotage in the same manner as the bridge property damage policy.

As in the bridge builder's policy there is no protection for change in character of the property, interest, or assignment. For the purpose of the policy the term "revenue" means the income from tolls and other operating sources, less such maintenance and operating charges and expenses as do not necessarily continue during the period of total or partial suspension of use.

There is a limit of liability for each day during the period of total suspension of use, subject to the actual loss of revenue sustained. The term "day" or "per diem" means a period of 24 consecutive hours. Due consideration will be given to the revenue before the loss or damage and the probable revenue thereafter, however not exceeding 1/365 of the amount of insurance for each day of total suspension.

In order to avoid payment of claims for limited amounts, the policy provides that the company is not liable for any loss of revenue resulting from any total or partial suspension of use of the property except loss of revenue arising from that part of a suspension which is in excess of seven days. Each accident is considered as a separate claim.

As in other use and occupancy forms, the company will not be liable for any loss of revenue which occurs after the time when the property

could, with ordinary diligence and dispatch, be restored to use. The insured also must, as soon as practicable after any loss or damage, resume complete or partial operation of the property and make use of other property, if obtainable, if by so doing the amount of loss will be reduced, and in the event the loss can so be reduced, such reduction will be taken into account in arriving at the amount of the loss.

The policy contains the usual clauses of the other bridge forms with reference to appraisal, filing proof of loss, payment of claim, and cancellation.

The per diem form can be modified as follows: (1) monthly per diem, (2) coinsurance, and (3) adjusted values.

1. *Monthly per diem endorsement.* In view of the fact that the income may vary throughout the year, by the use of the endorsement a different amount of liability per day may be stated for the various months.
2. *Coinsurance endorsement.* This endorsement provides that the company will not be liable for a greater proportion of any loss of revenue than the sum insured bears to 100% of the revenue that would have been received during the 12 months immediately following the accident.
3. *Adjusted values endorsement.* There is the possibility that there may be an increase in revenue over the previous year. Therefore the endorsement provides for the following:
  - (a) The amount stated in the policy is a provisional amount which is a stipulated percentage of the total use and occupancy insurance provided. The company's liability is limited to the same percentage of any loss covered, but in any event not to exceed 125% of the provisional amount of the policy. Therefore if the revenue should increase during the policy year over the revenue of the previous policy year, there would be 25% additional coverage over the stipulated provisional amount.
  - (b) The insured agrees to furnish the company, within 30 days after the last day of each policy year, a certified statement of revenue of the property for each policy year.
  - (c) The premium named in the policy is provisional only. The actual premium consideration for the liability assumed will be determined at the end of each policy year, and the insured must pay an additional premium for use and occupancy value in excess of the provisional amount (but not for any excess above the limit of liability stipulated). The company will refund the premium paid for the amount of use and occupancy insurance in excess of the actual revenue.

## QUESTIONS AND PROBLEMS

1. Discuss the development of inland marine insurance and its relation to marine insurance.
2. (a) What is the purpose of the inland transit form?  
(b) Compare the provisions of the inland transit form and marine insurance as respects labels, damage to machinery, sue and labor, rights of carriers, advances in case of loss and salvage.
3. (a) Explain the liability of a motor truckman to shippers.  
(b) The *R Trucking Company* had a motor truck carrier's policy with a limit of \$25,000 per truck. Discuss the company's liability under the following contingencies:
  - (1) Goods belonging to *A*, valued at \$1,000, were destroyed by fire while in a trailer attached to *R*'s truck. When the loss occurred, the trailer had been detached temporarily from the truck.
  - (2) While goods valued at \$1,000 were being transported on a truck of the public truckman, a fire caused \$500 damage.
  - (3) *R* described in the policy the ownership of two trucks. He subsequently purchased an additional truck which he reported to the company. While transporting goods, one of *R*'s truck collided with another vehicle, causing \$1,000 damage to the goods. The contents of the truck were valued at \$40,000.
  - (4) While goods were being transported on *R*'s truck, *R*'s employees were held up and two packages valued at \$4,000, belonging to *R*, were stolen.
  - (5) A thief opened a package and stole a single article, valued at \$50, from the package. At the time of the theft, the truck had not been locked.
  - (6) During a rainstorm various packages were damaged, causing \$2,500 loss.
  - (7) *R* shipped goods valued at \$30,000 on his truck. The goods were damaged in a flood, which caused a \$3,000 loss.
  - (8) During the course of transportation, leakage occurred from various barrels containing a liquid.
  - (9) A suite of furniture was damaged. The company claimed that the loss was due to poor packing.
  - (10) Due to delay in delivering various commodities, the consignee refused to accept the goods. The shipper filed a claim for \$1,500 with the motor cargo carrier.
  - (11) The consignee refused to accept the merchandise, claiming that there was a change in color of the material.
  - (12) *R* transported horses in a truck. As a result of a collision, one horse was injured. The horse was sold at a loss of \$500.
  - (13) *R* transported eggs in a truck. One crate of eggs was damaged when the truck collided with a loading platform. The

value of each crate of eggs was \$18, and the amount of damage to the crate was \$12.

- (14) Suppose that, in the previous problem, there was damage of \$300 to all the crates.
- (c) Goods belonging to *M* were stolen from one of *R*'s trucks which was not listed in the policy. The value of the goods was \$1,000. Discuss the company's liability under the motor carrier endorsement.
4. (a) State various reasons why a shipper should purchase a shipper's transportation policy.
- (b) *Q* purchased a shipper's transportation policy. Explain the company's liability for the following:
- (1) While goods valued at \$1,000 were being transported on a truck of a public truckman, a fire caused \$500 damage.
  - (2) *Q* shipped a package of goods valued at \$1,000 on the *X Railroad*. The package was opened and part of the contents, valued at \$100, was stolen.
  - (3) During the course of transportation, part of the goods at the *X Railroad* mysteriously disappeared.
  - (4) As the result of a collision, *Q*'s goods were damaged while on the truck of the *Y Railway Express Company*. *Q* claimed a loss of \$1,500 for three packages. However, *Q* had accepted an express receipt limited to \$50 per package.
  - (5) While *Q*'s employee was in a taxicab, he was held up and a package was stolen.
  - (6) During transportation by the railroad, several articles were marred and thus slightly damaged.
- (c) Compare the shipper's policy and the motortruck carrier's policy as respects the following: leakage, breakage, delay, discoloration, strike, and riot.
5. *T* was a dealer in fur skins. He delivered furs in his own trucks. *T*'s policy was subject to a maximum liability of \$50,000 on any one truck, and also subjected *T* to an alarm warranty. Explain the company's liability for the following:
- (a) The driver was held up on March 20 and *T*'s furs were stolen. An investigation by the company indicated that the last alarm inspection was made on January 10.
  - (b) Suppose that, at the time of the loss, the alarm was in the "on" position and the loss was \$4,000.
  - (c) The driver of a truck stopped to deliver a package to a customer. While delivering the package, a thief forced open the truck and stole several packages.
6. (a) Describe the methods used to ascertain the premium charge for the motor truck carrier's transportation insurance.

- (b) What is the purpose of the trip transit policy, and what factors determine the premium charge?
7. (a) Describe the essential provisions of the coupon form of parcel-post insurance.
- (b) Discuss the company's liability under a parcel-post policy for the following contingencies:
- (1) Goods worth \$150 were never delivered to the consignee.
  - (2) The goods above mentioned were shipped by government-insured parcel post.
  - (3) *N* shipped goods valued at \$250 by government-insured parcel post. The goods were not delivered. The value declared by *N* to the government was \$75.
  - (4) *N* shipped, on memorandum, goods worth \$50, by ordinary parcel post, to *S*. The goods were never delivered to *S*, who had been a customer of *N*'s for two years.
  - (5) *N* shipped eggs valued at \$10 by parcel post. During the course of transportation, the eggs were destroyed by fire.
  - (6) *N* shipped clothing to *S* by parcel post. The clothing was never received by *S*, who lived in a transient hotel.
  - (7) *N* shipped a coat insured for \$250. The coat was insured with the government for \$150. The package which bore the label, "A—Manufacturer of Fine Coats," was stolen from the mail.
- (c) Describe the method by which crockery may be insured under a parcel-post insurance policy.
- (d) Compare the provisions of the parcel-post coupon form policy and the parcel-post open policy.
- (e) Explain the purpose of the following endorsements: (1) descriptive labels, (2) returned or incoming parcel-post shipments, (3) government-insured parcel-post shipments.
8. (a) Explain the purpose of the registered-mail policy.
- (b) *F* shipped the following articles at various times: bonds, jewelry, and radium. Which of these articles should be insured under registered-mail policy, and to what stipulation would the policy be subject?
- (c) *F* had a registered-mail floater. Discuss the company's liability under the following circumstances:
- (1) A messenger was given a package of bonds which were entered on the records of the insured at a value of \$5,000. The package was to be delivered to the post office, to be sent by registered mail. The messenger was held up on the way to the post office and the bonds were stolen. The policy provided a limit of \$50,000 per package.
  - (2) What if, in the above problem, the messenger had stolen the bonds?

- (3) *F* shipped bonds valued at \$5,000 and insured by \$4,000 by express to *C*. The express company was unable to deliver the bonds and ordered them returned to *F*. While being returned, the bonds were stolen.
  - (4) The floater provided for a limit of \$50,000 per package. *F* shipped a package of securities amounting to \$60,000 by registered mail.
  - (5) *F* shipped securities insured for \$10,000 by registered mail. The securities were stolen. On the day *F* was informed of the loss, the market value of the securities stolen was \$9,500.
  - (6) *F* shipped nonnegotiable securities valued at \$5,000 by registered mail. These securities mysteriously disappeared. *F* obtained duplicates of the securities, but was required to furnish a surety bond. The expenses involved in obtaining the reissue and the cost of the bond were \$250.
- (d) What are the duties of the insured under the registered-mail policy?
9. (a) Explain the use of the armored motorcar or messenger policy.  
(b) What provisions of the armored motorcar and messenger policy are similar to the registered-mail policy?
10. Explain the purpose of the schedule property floater.
11. Discuss the company's liability under a \$1,500 personal effects floater for the following:
- (a) While *U* was at his home, a fire caused a \$500 clothing loss.
  - (b) State the company's liability if the loss mentioned in the previous problem occurred in a railroad station where *U* had checked his trunk in the course of traveling.
  - (c) While *U*, the insured, was traveling on a train with his married daughter, clothing valued at \$250 belonging to the daughter was stolen.
  - (d) While traveling on a steamship to Europe, *U* lost \$50 in paper currency.
  - (e) While *U*'s son was on the campus of his college, he was held up and robbed of books valued at \$25.
  - (f) Clothing valued at \$150 belonging to the son was lost by reason of fire in the dormitory in which the son lived. The policy was subject to the \$25 deductible clause.
  - (g) While traveling, *U* lost a watch valued at \$150.
  - (h) *U* left his coat with a cleaner for pressing. As a result of the cleaner's negligent work, the garment became worthless. *U* claimed \$50 for the loss of the garment.
  - (i) The floater was subject to an unattended automobile endorsement. During an automobile trip, *U* placed his trunk in a compartment attached to the automobile and locked the compartment. *U* stopped at a hotel in order to have a meal. While *U* was away from the automobile, a thief broke the lock of the compartment and stole goods valued at \$100. In addition, furnishings valued at \$100 were stolen from the trailer attached to the automobile. The in-

investigator of the company discovered that *U* had not closed the various doors of the automobile.

- (j) *W* had a personal effects floater for \$1,000, subject to an endorsement excluding coverage for burglary, theft, or robbery. While on a trip, *W*'s valise and clothing, valued at \$300, disappeared.
  - (k) *A* insured his bicycle under a bicycle floater for \$100. Explain the company's liability under the following circumstances:
    - (1) While the bicycle was stored in the basement of the house in which *A* lived, the bicycle was stolen. *A* discovered the loss a month later.
    - (2) While *A* was riding the bicycle, the tire became flat. This cost \$2 to repair.
    - (3) *A* left his bicycle along the side of a road while on a bicycle trip. An automobile ran over the bicycle causing \$50 damage.
    - (4) *A* kept his bicycle outdoors overnight. During the night rain caused several parts of the bicycle to become rusted.
12. (a) *R* had a \$1,500 fur floater. A fur coat belonging to *R*'s daughter was sent to the furrier for repairs. While at the fur shop, the workmen damaged the coat to such an extent that the daughter could not use the coat again. Discuss the company's liability for *R*'s \$150 damage claim.
- (b) *R* had various furs belonging to his wife and children. He desired to obtain fur floater coverage. These furs had been bought at various times. Discuss a method that *R* should use in order to determine the amount of insurance.
13. State the company's liability under a \$10,000 jewelry-fur floater in the following circumstances:
- (a) *Z* lost one earring of a pair, each of which, when paired together, was valued at \$400. The remaining earring, after the loss, was worth \$300.
  - (b) A ring valued at \$500 was stolen from *Z*'s home. An examination of the schedule attached to the policy disclosed that the ring had not been listed in the schedule.
  - (c) *Z* sent jewels valued at \$1,500 to be repaired. During the course of repair the rings were damaged by the jeweler.
  - (d) As a result of a fire, jewels belonging to *Z*'s wife were destroyed. These jewels had been scheduled in the policy for \$600. However, replacement value at the time of the fire was \$500.
  - (e) While *Z*'s wife was wearing her fur coat, several of the skins of the coat were torn. *Z*'s wife had used the coat for five years. *Z* filed a claim for \$250.
14. (a) *M* had a \$5,000 wedding present floater. An automobile valued at \$1,000, two rings valued together at \$500, and clothing valued at \$1,000 were stolen a week after the wedding ceremony while *M* was on her honeymoon. The automobile and the rings were given to *M* as wedding presents. Discuss the company's liability.

- (b) Compare exclusions of the wedding presents form with the jewelry floater.
15. (a) Discuss the company's liability under a \$2,500 silverware floater in the following circumstances:
- (1) *Q*'s maid stole a large piece of silver for which *Q* filed a \$500 claim.
  - (2) *Q*'s silver flask valued at \$75 was stolen.
  - (3) *Q* owned a silver statue with an electric light attachment which was short-circuited and caused \$100 damage.
- (b) Compare the provisions of the wedding presents floater and the silverware floater.
16. (a) State the company's liability under a \$50,000 fine arts floater in the following circumstances:
- (1) *N*'s butler stole a picture valued in the schedule at \$5,000. At the time the painting was stolen, a dealer would have paid \$7,500 for the picture.
  - (2) While *N*'s pictures were being exhibited at a national exposition, a fire occurred and destroyed two pictures listed at \$5,000.
  - (3) During the course of repair, a painting scheduled at \$500 was damaged.
  - (4) *N*'s maid maliciously broke a vase scheduled at \$1,000.
  - (5) In addition to *N*'s city residence, *N* also had a country residence. He sent a picture valued at \$500 to his country home by railway express. During the course of transportation, the painting was lost.
  - (6) After *N*'s policy had been issued, he acquired an antique set of silver consisting of 86 pieces. Two days after the articles were in his home, one piece was stolen. The value of the complete set was \$800. However, the valuation placed upon the set after the theft was \$600.
- (b) *N* desired to insure 350 different objects under a fine arts policy. What method would you suggest?
17. (a) *P* had a \$500 musical floater, broad form, insuring his violin. Discuss the company's liability for the following:
- (1) *P* sent his violin to a musical instrument shop for repair. While his violin was being repaired, it was damaged. *P* claimed \$150.
  - (2) The violin was damaged as a result of high temperature. *P* claimed \$100.
  - (3) While playing his violin, the strings broke. *P* claimed \$10 damage.
  - (4) *P* loaned the violin to his friend, *F*. While the violin was in *F*'s home, the instrument was destroyed by fire.
  - (5) *P* was a member of an amateur orchestra. One day at rehearsal, the violin mysteriously disappeared.

- (6) What if, in the above case, the members of the orchestra received remuneration for playing?
  - (7) *P* placed his violin in an automobile. During his travels the violin and the automobile were destroyed by fire.
  - (b) Suppose that, in the previous problems, *P* had a limited form of the musical instrument floater.
  - (c) *P* owned several musical instruments worth \$1,800, and miscellaneous equipment valued at \$100. Explain the method of scheduling these articles in the musical instrument floater.
18. (a) *A* had a \$5,000 stamp and coin collection floater. Explain the company's liability under the following conditions:
- (1) *A* lent a book of stamps valued at \$500 to *B*. *B* sold the stamps without *A*'s consent.
  - (2) *A* discovered that two stamps had mysteriously disappeared from page 15 of a volume scheduled in the policy. The two stamps were specifically valued in the schedule at \$125.
  - (3) *A* intended to visit his friend. He placed a volume of stamps valued at \$1,800 in his automobile. During the course of traveling, *A* went into a store to make a purchase. While he was away from the automobile, thieves forced upon the automobile door and stole the book of stamps.
  - (4) While stamps valued at \$1,500 were being transported in an airplane, a crash caused their total destruction.
  - (5) *A* mailed a volume of stamps to his friend *B*. The volume of stamps was lost in the mail.
  - (6) A stamp insured in the schedule for \$500 was destroyed by fire. At the time of loss, *A* could have sold the stamp for \$750.
  - (7) One stamp of a block of ten stamps was stolen. The stamps were insured in the schedule for \$480. At the time of the loss, the market value of the balance was \$360.
  - (8) Three stamps that were on a page in a volume were listed respectively, in a recognized stamp catalog, at \$25, \$50, and \$200. The page disappeared.
- (b) Explain the bulk schedule and fireproof safe endorsements.
19. (a) Describe the various objects that can be insured under a camera floater.
- (b) *X* had various cameras which he insured under a camera floater form for \$1,500. Describe the company's liability under the following circumstances:
- (1) While on a train, a camera designed for aerial photography and valued at \$800 was stolen.
  - (2) A loss occurred during an airplane flight.
  - (3) *X*'s camera was damaged during the course of repair.
  - (4) *X* loaned the camera to *Z*. The camera was stolen by *Z*.
  - (5) *X* loaned a camera to *L*. *X*'s camera was destroyed by fire at *L*'s home.

- (c) Describe the endorsements that can be added to the camera policy.
20. *N* had an outboard motor policy. Discuss the company's liability for the following :
- While *N* was in his boat, a fire occurred, damaging the boat.
  - The motor and some equipment contained in the boat were stolen.
  - As a result of a collision with another boat, *N*'s motor was damaged.
  - Due to a heavy wave, the interior of *N*'s boat was damaged.
  - N* rented his boat to *B*. *B* engaged in a race with several boat owners. During the course of the race, *N*'s boat was forced against another boat and was damaged.
  - N*'s servant stole the boat.
  - As a result of a storm while operating the boat in March, the boat was lost.
21. (a) Compare the coverages and the exclusions of the scientific instrument floater and the musical instrument floater.
- (b) What are the coverages and exclusions of the gun floater form?
- (c) What are the coverages and exclusions of the miscellaneous articles floater?
22. (a) What information must be furnished by an applicant for a radium floater?
- (b) *T* had a radium floater policy. Explain the company's liability for the following :
- A container of radium was mysteriously destroyed. There was no special supervision of patients under radium treatment.
  - T* sent a radium container by mail and the radium was lost.
  - Two days after *T* had suffered a loss and could not find a container of radium, *T* advised the insurance company.
23. (a) Why was the personal property floater made available by the insurance companies?
- (b) Explain the difference between the requirement for scheduled and unscheduled property.
- (c) *Q* had a city and a country home. He purchased a personal property floater for \$10,000. What is the company's liability for the following :
- Clothing belonging to *C*, a married daughter who lived in *Q*'s home, was stolen from *Q*'s home.
  - While *Q* was at his country home in Florida, furniture valued at \$1,500 was destroyed by fire. This furniture remained throughout the year in *Q*'s country home. In addition, there were the following losses :
- |  |       |
|--|-------|
| <i>Q</i> 's clothing.....                                      | \$800 |
| Clothing belonging to <i>B</i> , who was <i>Q</i> 's guest.... | 400   |
| Clothing belonging to <i>D</i> who was <i>Q</i> 's servant...  | 150   |

Clothing belonging to *B*, amounting to \$50, was in *Q*'s automobile parked in front and was damaged by water from the fire hose.

- (3) *Q*'s servant went marketing for food. On her way, *R* stole the servant's pocketbook and \$10 in currency was lost.
- (4) While *Q* and his wife were visiting *M*, robbers entered *M*'s premises and stole the following articles belonging to *Q* and his wife:

Watch .....	\$400
Fur coat.....	800
Money.....	150
Railroad tickets.....	180

- (5) Thieves entered *Q*'s home and stole clothing valued at \$400. The thieves also damaged *Q*'s furniture and broke two statues valued at \$1,000. An estimate of \$75 was made for the repair of the furniture.
- (6) *Q* suffered a \$200 fire loss at his home, and subsequently *Q* suffered another fire loss amounting to \$1,500.
- (7) As a result of fire in *Q*'s home and garage, the insured estimated the following damage or loss:

Furniture and clothing.....	\$3,000
Dog.....	80
Automobile.....	40
Bicycle.....	40
Professional instruments.....	160

- (8) Due to negligence, *Q*'s servant broke a porcelain vase valued at \$80.
- (9) *Q*'s camera broke when it fell from his hand.
- (10) At various times, *Q* claimed the following:
  - (A) \$100 for an electric lamp damaged by a short circuit.
  - (B) \$50 for a musical instrument damaged by low temperature.
  - (C) \$1,200 for a coat damaged by moths.
  - (D) \$100 for a watch improperly repaired by a watchmaker.
  - (E) \$1,500 for a picture which was stolen while on exhibition at *B*'s home. *B* was a friend of *Q*'s.
  - (F) \$500 for furniture damaged by rioters in *Q*'s home after the police ordered the rioters to leave *Q*'s home.
  - (G) \$750 for furniture and clothing damaged by water poured on *Q*'s property by order of city authorities to prevent the spread of fire from several near-by buildings.
  - (H) \$300 for an outboard motorboat damaged by a storm.
  - (I) \$800 for money and \$600 for securities which mysteriously disappeared.

24. State the company's liability for the following contingencies under *M*'s garment contractor's floater with an aggregate limit of \$100,000:
- (a) While the clothing was on *M*'s truck to be delivered to contractor *B* for manufacturing, the chauffeur was held up and goods valued at \$10,000 were stolen.
  - (b) The policy was written subject to a limit of 50% for any contractor not specifically named. *M* delivered goods valued at \$4,000 to *F*, a contractor. During the course of manufacturing, the goods were totally destroyed by fire.
  - (c) As a result of manipulating the lock of a door, burglars entered the premises of *F*, a contractor for *M*, and stole *M*'s merchandise valued at \$1,000.
  - (d) As a result of fire at the premises of *F*, a subcontractor, *M*, suffered a loss of \$10,000. The amount of goods belonging to *M* at various contractors at the time of the loss was \$200,000.
  - (e) The floater was written subject to the risk of theft on premises. Goods were stolen valued at \$1,000 belonging to *M* from the premises of *F*, a contractor for *M*. *M* kept memorandums to indicate the amounts sent to various contractors, but he did not keep a set of double-entry books.
  - (f) Suppose the above theft was committed by *C*, an employee of *F*.
  - (g) Goods valued at \$1,000 disappeared.
  - (h) As the result of the freezing of the sprinkler system on the premises of *M*'s contractor, *M* suffered a merchandise loss of \$1,000.
  - (i) A boiler exploded and resulted in \$1,000 damage to *M*'s property in the custody of the contractor. *M* also claimed a \$1,000 loss as a result of delay in preparing the insured property for the market.
25. State the company's liability in the following circumstances under a \$50,000 theatrical floater:
- (a) While *P*'s scenery was being transported on a ferry, the ferry collided with another boat, causing the loss of scenery valued at \$500, costumes at \$250, and costume jewelry at \$300.
  - (b) *P* placed scenery valued at \$1,500 in storage. One month later, a fire in the warehouse destroyed the scenery.
  - (c) Theatrical costumes valued at \$5,000 were stolen from the theater.
  - (d) Scenery valued at \$2,000 was damaged by water, due to the operation of the sprinkler system.
26. (a) *N*, who was a dealer in dresses, had a \$15,000 salesman's floater, limited form, subject to a \$5,000 limit on any one salesman. Discuss the company's liability under the following conditions:
- (1) While traveling on a train, a salesman checked his samples valued at \$7,500. The samples were totally destroyed by fire.
  - (2) The samples were in the baggage train when destroyed by fire.
  - (3) The samples were in a hotel room when destroyed by fire.

- (4) The salesman checked his samples on a train. A thief broke open the valise and stole a sample dress valued at \$50.
  - (5) *N* sent samples to his salesman, *B*, who had permanent showrooms in another city. Fire broke out in the showrooms and caused a loss of \$500 to *N*'s samples.
  - (6) The salesman took a valise containing *N*'s samples, valued at \$2,500, with him while he attended a moving-picture performance. Fire broke out and *N*'s samples were burned.
  - (7) Suppose the samples mysteriously disappeared while the salesman was in the theater.
  - (8) The salesman stopped at a hotel during his travels. Fire broke out in the hotel. As a result, *N*'s samples were damaged by water. *N* claimed \$500.
  - (9) *N*'s samples were damaged by water flowing from a break in a pipe at the hotel where the salesman kept his samples.
  - (10) Salesman *B* carried samples valued at \$500, and four dresses valued at \$100, sold to *C*. The goods carried by the salesman were lost as a result of fire at a hotel at which *B* stopped.
  - (11) *N*'s salesman placed samples, valued at \$500, in an automobile. The samples were stolen from the automobile.
- (b) Compare the company's liability for losses in the previous problem if *N* had purchased a salesman's floater, broad form.
  - (c) *N* was a dealer in silks and had a \$5,000 salesman's floater, broad form. *N*'s salesman, *B*, hired *C* to carry the samples. *C* stole a valise containing samples valued at \$500. State the company's liability.
  - (d) *N* was a dealer in fine crockery, and had a \$15,000 salesman's floater, broad form, subject to a limit of \$2,500 for any one salesman. As a result of a collision with another automobile, samples valued at \$1,000 were totally destroyed. Discuss the company's liability.
27. *R* had a \$150,000 jeweler's block floater subject to \$50,000 outside limit and \$25,000 while in the possession of a salesman during the course of traveling. State the company's liability under the following conditions:
- (a) Jewels valued at \$1,500 mysteriously disappeared from the premises of the jeweler.
  - (b) Jewelry was stolen belonging to *B*, a private individual who had left them with *R* for the purpose of determining their valuation.
  - (c) Suppose, instead, that the goods belonged to *C*, a dealer who had left them with *R* on memorandum to be sold.
  - (d) Fire destroyed furniture and fixtures valued at \$50, and also damaged *R*'s jewelry, causing a loss of \$500.
  - (e) A thief entered *R*'s premises and forced open the safe. The thief stole jewels valued at \$50,000, and \$500 cash.
  - (f) *C*, who had been hired for the day to clean *R*'s premises, stole watches valued at \$1,000.

- (g) An employee of the railroad express company stole diamonds valued at \$15,000 during the course of shipment to *R*'s salesman.
- (h) During the course of repair, an employee damaged a watch. *R* claimed damages of \$500.
- (i) *B*, a salesman of *R*'s, stopped at *Hotel X*. During the day an earthquake occurred and fire followed. In the commotion, jewels valued at \$5,000 were stolen.
- (j) *R* sent jewelry valued at \$500 by registered mail to his customer, *C*. The jewelry was stolen.
- (k) What if air mail had been used in the above problem?
- (l) Suppose the jewelry had been sent by freight?
- (m) *R*'s salesman dropped a watch, causing \$100 damage.
- (n) *R* sold *B* jewelry valued at \$1,500. *B* paid \$500 cash and agreed to pay the balance in four monthly installments. The jewelry was stolen from *B*.
- (o) *R* delivered jewelry, valued at \$500, to dealer *B* on memorandum. *B*'s wife wore the jewelry at a theatrical performance where the jewelry was stolen.
- (p) Jewels valued at \$5,000 were stolen during a public exhibition.
- (q) *B*, a salesman, left jewels valued at \$50,000 in an automobile while attending a sales conference, and designated *C* to watch the car until he returned from the conference. *C* was attacked by robbers and the jewels were stolen.
- (r) *R* sent his customer, *B*, jewelry valued at \$5,000 by registered first-class mail. The package was received by *B* in good condition. However, when he opened the package and compared it with the invoice sent by *R*, *B* discovered that two jewels valued at \$500 were missing.
- (s) *C*, a salesman of *R*'s, planned a selling trip by train. A day before he left, he checked some samples valued at \$1,200 with the passenger parcel service of the railroad. The railroad forwarded his samples to their destination on a train that departed before *C*'s train. The samples, which were sent in a freight car by the railroad, were lost in a derailment of the freight train.
- (t) *R* sent jewelry valued at \$750 by a parcel delivery car to *M*, a customer. The jewelry was stolen from an employee of the car service as he was delivering the jewelry to *M*.
- (u) A thief entered *R*'s premises and stole jewels valued at \$1,000 from his show window.
- (v) Suppose that, in the above problem, the thief smashed the window and stole the jewels.
- (w) Burglars entered *R*'s premises and stole jewels, precious stones, and watches belonging to *R*. *R* claimed \$5,000 for the stolen articles. These articles were carried at the following values on *R*'s books: jewels, \$1,500; precious stones, \$1,000; and watches, \$1,500.

- (x) Watches valued at \$8,000 were stolen from *R*'s premises. The market value was \$7,200.
  - (y) *R* paid a reward of \$250 because *C* had given *R* information leading to the recovery of some precious stones that had been stolen.
  - (z) *B* gave jewelry to *R* in order to determine the value. *R*'s premises were robbed and *B*'s jewelry was stolen. *B* claimed that the value of the jewelry was \$1,500. *R* requested the company to pay *B* that amount. The company settled for \$1,000.
28. *A* had a \$15,000 laundry, cleaner's and dyer's floater. Describe the company's liability under the following circumstances :
- (1) (a) *B* sent a coat valued at \$15 to be cleaned, and also wearing apparel valued at \$20 to be laundered. While the goods were being returned on *A*'s truck, the chauffeur was held up and *B*'s goods were stolen.
  - (b) *B* gave her laundry, valued at \$75, to *C*, who was an agent of the *A Laundry*. While the goods were at *C*'s premises, they were damaged by windstorm. *B* had purchased insurance protecting her property against loss due to windstorm.
  - (c) As a result of fire on *A*'s premises, goods were mixed up. *B*'s goods, valued at \$50, which had been sent to *A* for laundering, could not be identified.
  - (d) State the company's liability under the policy just analyzed if the goods were mixed up by *C*, an employee of *A*, rather than as a result of fire.
  - (e) *A*'s truckman delivered *B*'s suit, valued at \$50, to another customer. It was impossible to determine to whom the suit was erroneously delivered.
  - (f) *B* sent a dress valued at \$25 to *A*, to be laundered on June 10. On instruction of *B*, *A* agreed to launder the dress and to keep it until *B* needed the garment for wear during the winter. On August 15 the dress was damaged as a result of water coming from the sprinkler system.
  - (g) Goods were placed on *A*'s truck for delivery to various customers. As the chauffeur had not completed all the deliveries at the end of the day, he locked the truck and left it outside his home. During the night goods valued at \$500, belonging to various customers, were stolen from the truck.
  - (h) A dress belonging to *B* was stolen from *A*'s premises by burglars. *A* filed a claim for \$150. The company settled directly with the customer for \$75.
  - (i) What if the dress was valued at \$25 and *A* paid that amount to *B* without consent of the insurance company?
  - (j) *C* claimed the loss of two shirts which were stolen from *A*'s truck.
- (2) Describe the special endorsements for the laundry, cleaner's, and dyer's form.

29. (a) The *A Processing Company* purchased an all-risk floater. Explain the company's liability for the following losses:
- (1) Goods belonging to *C* were stolen by an employee of a public truckman while returning the goods to *C*.
  - (2) Goods belonging to *B* were stolen by an employee.
  - (3) *B* claimed that he sent *A* 50 articles. However, *A* returned only 48 articles.
  - (4) During the course of processing merchandise, an explosion occurred which damaged the property of *D*.
  - (5) Suppose that, in the above problem, *A* was insured only against legal liability.
- (b) Explain the following warranties used in the processor's floater:
- (1) Flashpoint.
  - (2) Locked automobile.
30. (a) *T* had a furrier's customers' policy. Discuss the company's liability under the following conditions:
- (1) *M* sent his fur coat to *T* for alterations. The fur coat was destroyed by fire at *T*'s premises. The amount stated in the storage receipt was \$100. *M* also had a personal property floater. The coat was in *T*'s possession for approximately four months. The amount of repair and storage charges was \$100.
  - (2) *M* delivered a fur coat to *T* for alterations. *M* accepted a receipt from *T* that the value of the coat was \$150. The coat mysteriously disappeared. The replacement value of the coat was \$250.
  - (3) *M*'s fur coat was damaged by moths while in storage.
  - (4) *M*'s fur coat valued at \$500 was placed on *T*'s truck for delivery. As the chauffeur stopped before *M*'s home, he was held up and the coat was stolen.
  - (5) Suppose that *T*, in the above problem, had guaranteed the return of the coat.
  - (6) *C*, an employee, stole several fur coats accepted for storage. *T* had a fidelity bond covering his employees.
  - (7) As a result of water damage, the insurance company desired to remove the damaged coats to *Y*'s cleaning establishment in order to reduce possible claims.
  - (8) *T* returned *M*'s coat by railway express. The amount stated in his storage receipt was \$600. *T* accepted a \$50 railway express receipt. The coat was not returned to *M*.
  - (9) Due to fire, 40 coats which were insured for \$12,000 were damaged and the loss was estimated at \$4,000. In addition to his storage policy, *T* also had a fire insurance policy covering merchandise on the premises.
  - (10) *M* obtained a receipt for \$500 on a fur coat worth \$1,500. The coat was lost, due to *T*'s negligence.
- (b) Describe the coverage of the personal fur certificate.

31. *X* had a wool growers' floater. Discuss the liability for the following losses:
- (a) During the course of transportation, ten bags of wool were damaged by flood.
  - (b) Two bags of wool were stolen at the shearing location.
  - (c) After delivery to the buyer's warehouse, the wool was destroyed by fire.
  - (d) As a result of a riot at *X*'s warehouse, the wool was damaged.
  - (e) Six bags of wool were destroyed by a tornado.
32. (a) (1) *A* sold goods to *B* on a credit of 60 days. *A* desired to insure the property while in *B*'s possession. Is floor-plan insurance available?
- (2) The *A Bank* made a loan to *B* on merchandise in *B*'s possession. Can the bank obtain floor-plan insurance?
- (b) The *A Jewelry Company* sent goods to the *B* store on memorandum. Sale could be made only providing permission was obtained from *A*. Is floor-plan insurance available?
- (c) The *A Bank* purchased floor-plan insurance, including the interest of the *B Silk Mills Jobbing Company*. The bank had a specific financial interest in a designated number of bales of silk and containers of chemicals. What is the company's liability for the following:
- (1) *B* sold five bales of silk. During the course of delivery to the customer, *D*, the goods were destroyed by fire.
  - (2) Five bales of silk were damaged by water at *B*'s premises.
  - (3) *E*, an employee of *B*, stole some of the silk.
  - (4) Several barrels containing chemicals were kept on the outside of *B*'s premises and were damaged by rain.
  - (5) During the course of transit, two barrels containing chemicals were broken.
  - (6) During transportation, chemicals were damaged by flood.
  - (7) As a result of fire at *B*'s premises, goods were damaged. The amount of damage was \$1,000 and the remaining value of undamaged goods was \$8,000. The bank had made a loan of \$2,000 on the merchandise.
  - (8) Some of the raw silk which cost *B* \$1,500 was sold to *D* for \$1,800. However, before delivery, the goods were destroyed by fire.
  - (9) *B* suffered a silk loss by burglary. However, due to error, the company had not received a report that the merchandise which was stolen was in *B*'s possession.
33. *Y* had a \$20,000 pattern floater. What is the company's liability for the following:
- (a) Patterns were destroyed by fire at *Y*'s premises.

- (b) *Y* sent several patterns to *R*. He claimed a loss of the patterns, valued at \$900, due to the operation of the sprinkler system at *R*'s premises. The value of all patterns at all locations and in transportation was \$30,000.
- (c) Patterns belonging to *Y* were stolen from *E*'s premises.
34. *Q* had an installment floater limiting the company's liability to \$2,500 in any one place and \$10,000 in any one disaster. *Q* also had \$100,000 fire insurance covering merchandise at his premises. Discuss the company's liability under the following conditions:
- (a) While furniture, sold on the installment plan, was being transported on *Q*'s truck, there was a collision with another truck. The furniture repairs cost \$150.
- (b) What if the accident above mentioned was caused by a striker?
- (c) *Q* sold \$500 worth of furniture to *B* on the installment plan. Fire occurred at *B*'s premises and destroyed the furniture. *B* had paid \$150 on account.
- (d) What if *B* had \$1,000 worth of fire insurance on household goods.
- (e) *B* purchased \$750 worth of furniture on the installment plan. After using the furniture for six months, *B* returned the furniture for repairs. On the same day the furniture was returned, there was a fire at *Q*'s premises that destroyed the furniture. The balance due on the furniture was \$600. The wholesale price of the furniture was \$500. The furniture had an estimated use of five years.
- (f) *Q* sold furniture to *B*. When the furniture was unpacked, it was discovered that a nail had been driven into one piece of furniture during the packing. Repairs costing \$50 were made.
- (g) Furniture was placed in an elevator in the house in which the customer resided. As a result of the sudden starting of the elevator, two pieces of furniture fell over and were badly marred. Repairs costing \$75 were made.
- (h) A lamp was damaged by a short circuit while in *B*'s premises.
35. *F* had a contractors' equipment floater which covered drilling machinery for \$4,000. Discuss the company's liability under the following conditions:
- (a) The drilling machinery was damaged by fire.
- (b) While the excavating machinery was being transported, a highway bridge collapsed and the machinery was destroyed.
- (c) A machine collapsed from overloading.
- (d) While the machine was being transported on a ferryboat, the boat sank and the machine was lost.
36. The *A Elevator Company* had an installation floater. *A* agreed to install an elevator in *B*'s building. Explain the company's liability for the following:
- (a) During the delivery of various parts of the elevator on a truck, damage was caused by collision of the truck with another truck.

- (b) During the course of installation of the elevator, several parts were stolen.
  - (c) Strikers entered the premises and damaged the elevator.
  - (d) While installing the elevator, a short circuit in the electrical wiring caused insulation to burn out and also started a fire which damaged the elevator.
37. *G* had a \$1,000 neon sign floater. State the company's liability under the following conditions:
- (a) A heavy wind carried away and totally destroyed the sign. The value of the sign at the time of the loss was \$800.
  - (b) While the sign was being transported on a truck, a collision occurred and the sign was completely destroyed.
  - (c) While the sign was being installed, the ropes unaccountably broke and the sign was partially smashed.
38. *A* had a manufacturer's output policy covering his property.
- (a) List various insurance coverages that can be combined under a manufacturer's output policy.
  - (b) What are some of the types of property which may be insured under a manufacturer's output policy?
  - (c) Explain the company's liability in the following circumstances.
    - (1) *A* mailed some samples to his salesman. The samples never arrived.
    - (2) *A* moved some finished goods from his plant to a warehouse in Canada. While at the warehouse, the goods were damaged by a flood.
    - (3) An earthquake destroyed the contents of a warehouse owned by *A*. At the same time, a truck belonging to *A* was carrying some goods to the warehouse. The truck and its contents were also destroyed by the earthquake.
    - (4) A truck owned by *A* was destroyed by a collision with another vehicle. The truck was empty at the time of the collision.
    - (5) A fire destroyed a warehouse which *A* had leased. The following items were destroyed: finished goods, machinery left with *A* belonging to *B*, two tractors, files, and old records. In addition, *A* suffered damage to improvements and betterments which he had made in the warehouse for his own benefit.
    - (6) *A* shipped some goods on his own truck to a customer. While the truck was in a garage overnight, en route, fire destroyed the truck and its contents.
    - (7) What if in the above problem, the truck and the contents were damaged because the vehicle had overturned.
    - (8) A fire at *A*'s manufacturing plant destroyed the building and *A*'s property inside the building. *A*'s truck, which was being loaded at the time, was also destroyed in the fire.

- (9) *R*, an employee of *A*, stole some instruments from *A*'s warehouse.
  - (10) *A* had an exhibit at a local hall which he rented for the occasion. An explosion of the steam boiler in the building destroyed *A*'s exhibit.
  - (11) *A* shipped some goods by steamer on the Great Lakes. The ship capsized and the shipment was lost. *A* had no other insurance on the cargo.
  - (12) *A* sold property on the installment plan to *C*. Before *C* had completed paying for the goods, they were destroyed by rioters.
  - (13) *D*, a burglar, broke into a branch sales office of *A*'s firm and stole several typewriters from the office and money from the safe, which was not locked.
  - (14) *A*'s warehouse was insured for \$100,000. A fire destroyed property valued at \$20,000. The total value of the property in the warehouse at the time of the loss was \$125,000. The last reported value was \$110,000.
  - (15) *A*'s manufacturer's output policy required *A* to carry specific fire insurance for \$50,000 at one of his storerooms. The manufacturer's output policy covered that location for \$75,000. *A* failed to purchase any specific fire insurance as required. A fire caused damage amounting to \$60,000.
  - (16) On June 1 the insurance company sent *A* a notice that his manufacturer's output policy was canceled. On August 15 *A* suffered a fire loss at one of his warehouses.
39. (a) State the company's liability in the following circumstances under a \$1,000 horse and wagon floater:
- (1) *P*'s horse valued at \$600 was stolen at a public race track.
  - (2) As a result of collision, *P*'s horse was injured and had to be destroyed. The wagon was valued at \$200 and the horse at \$500.
  - (3) *P*'s equipment was damaged during the course of a riot.
  - (4) As a result of fire *P*'s horses were injured in an aircraft.
- (b) What additional coverages are available?
40. (a) What is the company's liability under a livestock floater for the following:
- (1) *S* insured a work horse for \$100. During a storm, lightning struck *S*'s barn and destroyed the horse. The value of the horse at the time of the loss was \$80.
  - (2) A bull insured for \$500 broke from his stall and disappeared.
  - (3) *S* loaned his horse to *B*, a neighbor. *B* refused to return the horse to *S*.
  - (4) *S* transported several hogs in his truck to the market. The truck overturned and the hogs escaped. *S* had contracted to sell the hogs for \$225 per animal. *S* had insured each hog for \$150.

- (b) Compare the provisions of the livestock floater with the livestock mortality floater and general livestock policy discussed in Chapter 10.
41. *B* had an agricultural machinery and equipment floater insuring his tractor for \$3,000 and a sprayer for \$1,000. Explain the company's liability under the following circumstances:
- (a) During the winter, cold weather caused the engine of the tractor to freeze. The damage was \$650.
  - (b) *B* loaned his sprayer to a neighbor. The neighbor refused to return the sprayer.
  - (c) While driving his tractor along the highway, it collided with an automobile. The damage to the tractor amounted to \$150, including \$40 damage to a tire.
  - (d) On June 1 *B* bought an additional sprayer for \$1,250. On June 20, while *B* was transporting the sprayer on his truck to his farm, the truck overturned. The sprayer was completely destroyed. Damage to the truck amounted to \$800.
42. (a) *M* had a bridge builders' floater. Analyze the company's liability under the following conditions:
- (1) During construction, the bridge was damaged by flood. *M* suffered \$75,000 damage. The last reported value of the property was \$1,200,000. The actual value of the property was \$1,500,000. The policy was written subject to a 1% deductible clause.
  - (2) Suppose that, in the above problem, the loss had been total.
  - (3) Machinery valued at \$1,000 was destroyed by an explosion.
  - (4) After a fire loss amounting to \$60,000, *M* was unable to obtain from the city authorities permission to repair the bridge for two weeks. *M* claimed an additional loss of \$20,000.
  - (5) The bridge was damaged by strikers, causing \$40,000 loss.
  - (6) During the course of construction, a material change was made in the bridge design. Subsequently there was a fire loss amounting to \$100,000.
  - (7) During a severe windstorm a temporary trestle and equipment were damaged, causing \$8,000 loss.
- (b) Compare the provisions of the bridge builders' floater and the bridge property damage form.
- (c) A bridge was insured for \$400,000. As the result of a fire, there was damage amounting to \$50,000. The cost of removing the debris was \$3,500. Explain the company's liability.
- (d) *M* had a bridge use and occupancy form with a per diem limitation. What is the company's liability for the following:
- (1) Due to an inherent hazard in the construction of the bridge, the bridge collapsed.
  - (2) As a result of windstorm, the bridge could not be used for ten days.

- (3) Due to the action of strikers, the use of the bridge was suspended for five days.
- (e) Compare the bridge use and occupancy form and the fire business interruption form in reference to partial suspension.
- (f) What are the essential differences between the monthly per diem coinsurance and the adjusted value forms?

## CHAPTER 18

### MISCELLANEOUS LIABILITY INSURANCE

**Liability for Negligence.**—The law provides that anyone who causes injury to another or causes damage to the property of another, through his own negligence or the negligence of his agents or employees, may be liable for any resulting damages. Furthermore, every person must use a reasonable degree of care, and the degree varies with circumstances. The following illustrations indicate persons who may be held liable for negligence:

1. A building contractor who is erecting or repairing a structure may be held liable for injuries to anyone about the building who is entitled to be in the building, as well as to passers-by or persons in adjoining premises.
2. A property owner may be held liable for injuries to others by reason of any defective condition, improper repair, faulty construction, or inadequate maintenance or operation of the building.
3. A manufacturer of food products may be held liable for any foreign substance in the product, causing injury to any person using the product.
4. A manufacturer may employ an independent contractor to do certain work, for example, construction work. The question might arise whether the manufacturer is or is not responsible for the negligence of the independent contractor. Furthermore, if a statute or ordinance provides that the manufacturer is liable, he cannot escape liability, even though he hires an independent contractor to do his work. One may delegate certain work to an independent contractor, but he cannot entirely eliminate his liability to others. He may be sued jointly with the contractor or independently, and sometimes judgment is rendered against him.

**Types of Liability.**—To protect the insured against liability for personal injury, the insurance companies issue various types of miscellaneous public liability coverages. Public liability may be direct, contractual, or contingent and protective. Where the insured's own legal liability is involved, the liability may be termed direct or primary coverage. In contractual liability, the liability of others is deliberately assumed as a result of contract. This type is illustrated by the manufacturer who may induce a railroad to build a spur track on his property by

agreeing not to hold the latter responsible in case of accidents occurring as a result of the operation of the spur.

Protective liability involves the indirect liability of the insured to the public for the acts of others for which the law may hold him liable. The owners' or contractors' protective liability policy, for example, covers the insured owner or contractor against claims arising from construction operation carried on by independent contractors or subcontractors for the owner or contractor.

Three stages of liability may exist in one construction operation involving a general contractor and subcontractor. In such a case, the primary coverage is obtained by the subcontractor, while the general contractor purchases contractors' protective insurance and the owner obtains owners' protective insurance. These three policies protect all interests.

For the purpose of this chapter, the following policies, which protect against liability due to injuries of persons or damage to property, will be discussed :

1. Manufacturers' and contractors' liability policy.
2. Product liability policy.
3. Protective public liability policy.
4. Elevator liability policy.
5. Owners', landlords', and tenants' public liability policy.
6. Comprehensive general liability policy.
7. Storekeeper's liability policy.
8. Comprehensive personal liability policy.
9. Farmers' comprehensive personal liability policy.
10. Professional liability policies.

Although the policies can provide protection against bodily injury liability and property damage liability, the insured frequently purchases only coverage for bodily injury liability. The provisions of the various policies discussed in this chapter are not completely standardized. Reference will be made to policy provisions as used by some of the insurance companies.

**Manufacturers' and Contractors' Liability.**—This policy can be used to cover operations such as manufacturing or contracting procedures. In order to compute the premium and to enable the company to issue the necessary coverage, the following important information must be given by the insured :

1. The place where operations are conducted.
2. A description of the operations.
3. Estimated remuneration to be paid to employees for the period of the policy, since the premium will generally be based upon such remuneration.

4. Whether any similar policy has been canceled or declined by an insurance company within the last 12 months.
5. Whether there are any other business operations similar to those described by the policy which are conducted by the insured at any location not designated in the policy and, if so, the various locations.

Under the policy, if the insured requires only bodily injury coverage, the company agrees to protect the insured against loss from the liability imposed by law upon the insured for damages on account of bodily injury, sickness, or disease, or death resulting therefrom to any person not in the insured's employ, alleged to have been suffered as the result of an accident occurring while the policy was in force (1) at any worksite actually occupied at the time by the insured at the place of operation, including ways immediately surrounding the various sites, (2) in the actual prosecution of and during work anywhere else in the United States and Canada in connection with the insured operations. The company is also liable for damages for care, maintenance, and loss of services of the injured person.

In addition to the company's liability for a specified limit in any accident for each person, the company must do the following things :

1. Defend, in the insured's name and behalf, any suit against the insured alleging injuries or death and seeking damages on account of the accident, even if the suit is groundless or fraudulent. However, the company has the right to make investigations, negotiations, and settlement of any claim or suit as may be deemed expedient by the company.
2. (a) Pay all premiums to release attachments for a bond which is not in excess of the limit of liability of the policy; (b) pay all premiums on appeal bonds required in any defended suit but without any obligation to apply for or furnish the bond; (c) pay all costs taxed against the insured in any suit; (d) pay all expenses incurred by the company; (e) pay all interest which accrues after entry of the judgment until the company has paid or tendered or deposited in court the part of the judgment which does not exceed the limit of the company's liability for the accident.

These various expenses are paid in addition to the limit of liability. Consequently, if the policy provided a limit of liability of \$5,000 for one person, and a judgment of \$6,000 is obtained by the injured party, the company would be liable for \$5,000 and in addition any costs awarded by the court. Should the company decide to appeal the case, the cost of any bond, as well as additional cost taxed against the insured, would have to be paid by the insurance company.

Ordinarily the insured is not permitted to make any payments to any injured person. Under the policy, however, if immediate medical aid or surgical relief is imperative at the time of the accident, payment made

by the insured will be refunded irrespective of the limit of liability or the liability of the insured.

**EXCLUSIONS.**—The bodily injury protection of the manufacturers' and contractors' liability policy excludes coverage for the following :

1. Bodily injury to, or sickness, disease, or death of an employee of the insured while engaged in the employment of the insured, or any obligation for which the insured may be held liable under any workmen's compensation law.
2. Liability assumed by the insured under any contract or agreement.
3. Escalators, elevators, hoists, and all appliances including cars, platforms, shafts, hoistways, stairways, runways, power equipment and machinery, at the premises owned, rented, or controlled in whole or in part by the insured, except elevator shaftways in which there are no elevators; dumbwaiters, or platform lifts defined in the company's *Elevator Liability Manual*; hoists located inside the walls of a building and not operated through hatchways, or located outside the walls of a building and (a) manually operated or (b) mechanically operated and not attached to the building walls; hydraulic or mechanical hoists used for raising or lowering automobiles for lubricating or servicing or for dumping grain from trucks; hod or material hoists used in alteration, construction, or demolition operations; escalators and conveyors used exclusively for freight.
4. The ownership, maintenance or use of any of the following :
  - (a) Aircraft by or in the interest of the insured.
  - (b) Boats or dogs while away from the premises insured under the policy.
  - (c) Draft or saddle animals; animal-drawn or power-driven vehicles, including attached vehicles, or the loading or unloading of the vehicles; vehicles from which merchandise is sold; and any other vehicle while rented to another, while away from the premises insured under the policy, except concrete mixers—not mix-in-transit type, crawler-type tractors, farm machinery, ditch or trench diggers, power cranes, power shovels, graders, scrapers, rollers, well-drilling machinery, asphalt spreaders, and mixing and finishing equipment for highway work which is not being towed or carried by any power-driven vehicle other than the types enumerated.
5. The handling or use of or the existence of any condition in goods or products manufactured, sold, handled, or distributed by the insured, if the accident occurs after the insured has relinquished possession to others and away from premises owned, rented, or controlled by the insured, except equipment or other property rented to or located for the use of others but not sold.
6. Operations, other than pick-up and delivery, and the existence of tools, uninstalled equipment, and abandoned or unused materials if

the accident occurs after the operations have been completed or abandoned at the place of occurrence and away from premises owned, rented, or controlled by the insured.

7. Operations performed for the insured by independent contractors, omissions or supervisory acts of the insured in connection with work performed for the insured by independent contractors, except maintenance repairs, or alterations (other than new construction or demolition operations, including changing the size of buildings or other structures) on premises owned or rented by the insured, and all accidents which occur after completion or abandonment of the operations.

Many of the above exclusions can be covered by specific policies, as will be seen by subsequent discussion in this chapter.

If the policy covers property damage liability, the insurance covers the liability imposed upon the insured by law for damages because of injury to or destruction of property, including the loss of use of the property as a result of an accident under the following conditions :

1. At any worksite actually occupied at the time by the insured at the place of operations, including ways immediately surrounding the various sites.
2. In the prosecution of and during work anywhere else in the United States and Canada in connection with the insured's operations.

If the policy covers property damage liability, the exclusions applicable to the bodily injury liability coverage also applies, and there are the following additional exclusions :

1. Injury to or destruction of property owned, rented to, occupied, or used by or in the care, custody, or control of the insured.
2. Injury to or destruction of buildings and contents of the buildings caused by any of the following :
  - (a) The discharge, leakage, or overflow of water or steam from plumbing, heating, refrigerating, air-conditioning, or automatic sprinkler systems (including any other substance from automatic sprinkler systems), water-storage tanks connected with plumbing or automatic sprinkler systems, elevator tanks and cylinders, standpipes for fire hose, or industrial or domestic appliances ; the collapse or fall of tanks or the component parts or supports which form a part of automatic sprinkler systems.
  - (b) Rain or snow admitted directly to interiors of buildings through defective roofs, leaders, or spouting or by open or defective doors, windows, skylights, transoms, or ventilators on or from premises owned or rented by the insured.
3. Injury to or destruction of premises alienated by the insured out of which the accident arises.

For various types of operations, in addition to the above property damage exclusions, the policy may also exclude coverage for :

1. Injury to or destruction of property caused by blasting or explosions, other than explosions of air or steam vessels, piping under pressure, prime movers, machinery, or power-transmitting equipment.
2. Property damage liability arising out of the collapse of, or structural injury to any building or structure due to the following:
  - (a) Excavation, pile driving, or caisson work.
  - (b) Moving, shoring, underpinning, raising, or demolition of any building or structure, or removal or rebuilding of any structural support thereof.

The company may eliminate the above property damage exclusions upon the payment of additional premium.

**ADDITIONAL PROVISIONS.**—The policy is subject to the following additional provisions:

1. If the insured is a corporation, there is a possibility that the injured employee may sue the corporation and an officer. Therefore the policy provides that any executive officer or member of the board of directors or board of trustees of the insured, while acting within the scope of his employment, will be deemed an insured under the policy. However, the policy does not cover such an individual in his capacity as the owner or lessee of any premises occupied by the corporation named in the policy of the insured unless he owns or financially controls it. The inclusion of more than one insured does not increase the limits of a company's liability as stated in policy.
2. There is a limit of liability for injury or death of any one person in any one accident. In addition, there is a total limit of liability for any number of persons injured in any one accident. The standard limits are \$5,000 and \$10,000 respectively. Therefore if a policy was purchased with a limit of \$5,000 and \$10,000, and three persons were injured in one accident who respectively obtained judgments of \$2,000, \$6,000, and \$1,000, the company's liability for each respective individual would be \$2,000, \$5,000, and \$1,000. If, however, two persons were injured in one accident and obtained judgments of \$5,000 and \$7,000, the company would be liable for only \$5,000 and \$5,000, that is, a total of \$10,000, for all claims due to one accident. The company would be liable up to the limit of liability for each accident, regardless of number, during the policy period.
3. The standard limit for property damage is \$1,000 for all damages arising out of injury to or destruction of property in any one accident. This limit per accident is also subject to an aggregate limit of \$10,000 for all damages arising out of injury to or destruction of property during the policy period.
4. The premium charged frequently depends upon the remuneration of the employees. Therefore the insured must pay a premium based upon the entire remuneration earned by the employees engaged in

work, at the rates respectively applicable to the work. There is another method that may be used for determining the premiums, as explained subsequently in this chapter.

5. In order to obtain a favorable underwriting experience, companies must give attention to the prevention of losses. The policy therefore provides that the company has the right and opportunity, whenever it so desires, to inspect the premises.
6. After a loss occurs, the insured must give notice of the accident as soon as practicable. This notice must contain the fullest information obtainable at the time, and the notice may be sent to the company at its home office or to its duly authorized agent. If any claim is made or suit commenced, the insured must give notice of the claim or suit and forward to the company at its home office every summons or other processing papers connected with the claim or suit. The company reserves the right to settle any claim or suit, even though the insured may object to the settlement. There is a possibility that the insured may not be able to comply with the requirement for notice, and therefore the policy provides that failure to give notice within the time specified will not invalidate any claim made by the injured person or his or her personal representative, if evidence is furnished that it was not reasonably possible to give the notice within the prescribed time and that the notice was given as soon as reasonably possible.
7. There is a possibility that the insured might carry similar public liability insurance. Under such circumstances the insured will not be entitled to recover from the company a larger fractional part of the entire loss than that indicated by the ratio of the amount of the policy to the total amount of all valid and collectible insurance against the loss.
8. The company requires that the entire claim must be handled by the company. Therefore the insured must not voluntarily assume any liability nor incur any expense other than for immediate medical and surgical relief nor settle any claim except at the insured's own cost. The insured cannot interfere in any negotiations for settlement nor in any legal proceeding. However, if the company should request assistance from the insured, the insured must aid in securing information and evidence and the attendance of witnesses, and file appeal bonds including bonds to stay execution of judgment and cooperate with the company in all matters which the company deems necessary in defense of any suit or in the prosecution of any appeal. Any expense incurred at the request of the insurance company by the insured will be refunded by the company.
9. As in other policies, the company must be subrogated to any rights the insured has against any third parties as respects payments. The

insured must execute all necessary papers so that the company can obtain such rights.

10. Ordinarily, if a person becomes bankrupt or dies, liability under the policy would terminate. To avoid this condition, the policy provides that in the event of death, insolvency, or bankruptcy of the insured, during the policy period, the policy will cover the legal representatives of the insured during the unexpired portion of the policy period. Notice must be given in writing to the company within 30 days after the date of death, insolvency, or bankruptcy.
11. The insured may be required to pay a claim or expense which he insists should have been paid by the company. If the company should deny liability to the insured, the latter can commence suit against the company. However, before commencing suit, he must show that he has fully complied with all terms of the policy and that the amount of the insured's obligation to pay has been finally determined either by judgment against the insured after actual trial or by written agreement of the insured, the claimant, and the company. While the policy ordinarily assumes only a direct obligation to pay claims for which the insured may be liable, if the insurance company should deny liability to the insured for the claim, any person or his legal representative who has secured a judgment or written agreement will thereafter be entitled to recover under the terms of the policy in the same manner and to the same extent as the insured. Incidentally, this provision does not give any person or organization any right to join the insurance company as codefendant against the insured to determine the insured's liability.
12. The policy can be canceled by the insured's mailing written notice to the company stating when the cancellation should be effective. The policy can be canceled by the company by mailing written notice to the insured at the address shown in the policy, providing for not less than five days after which cancellation would be effective. The mailing of notice is sufficient proof of notice. Delivery of the written notice by the insured or by the company is equivalent to mailing. If the insured cancels his policy, the earned premium will be computed at the customary short rates except when the insured retires from business.

**RATES.**—The rates for manufacturers' and contractors' liability insurance depend upon the following :

1. Territory of the risk.
2. Classification of the risk.
3. Increased limits.
4. Experience rating. (This subject will be discussed in Chapter 22.)

As stated on page 490, remuneration is generally used for determining the premium. Remuneration or pay roll means the money rate at

which service rendered is recompensed under the contract of hire, and includes the value of board, rent, housing, lodging, or similar advantages.

Whenever employees are remunerated in whole or in part by bonuses, commissions, or on the basis of piece-work, or any basis other than that of time actually engaged in work, or by store certificates, merchandise, credits, or any other substitute for money, such form of payment is considered as wages or part wages. The entire remuneration earned must be used as a basis of premium except as follows :

1. The entire remuneration will not include special award for meritorious achievement or discovery.
2. (a) If the employer's books and records are maintained so as to show separately by employee and by class of work (1) the entire remuneration earned by rates of pay for total hours worked, and (2) extra remuneration earned for overtime, the extra remuneration earned for overtime will be excluded from the premium computation.  
(b) If the employer's books and records are maintained so as to show separately by employee and by class of work (1) the remuneration earned for those hours worked at regular rates of pay and (2) the total remuneration earned for those hours worked at increased rates of pay for overtime, one-third of the total remuneration earned at such increased rates of pay will be excluded from the premium computation.
3. If the employer's books and records are maintained so as to show separately by employee and in summary by class of work the total remuneration earned by all employees whose individual average weekly remuneration for the total time employed during the policy period exceeds \$100 per week (a part of a week will be considered as a full week) after any deductions are made in accordance with subdivision 2, there will be excluded from the remuneration upon which the final premium for the policy is based that part of the remuneration of each employee which is in excess of the average.

The pay roll for drivers is excluded. However, the pay roll for driver's helpers and stablemen is included. If teams, including drivers and helpers, are employed under contract with the owners of the teams by the insured, and if the actual pay roll of the drivers and helpers cannot be ascertained, one-fourth of the total amount paid for the hire of the teams under contract will be considered as the pay roll of the drivers, and one-fourth of the total amount paid for the hire of the teams will be considered as the pay roll of the helpers.

Pay roll of chauffeurs and helpers are treated like those of drivers and their helpers. The reason for excluding the pay roll of drivers and chauffeurs is that a separate premium is charged for each team used by

drivers, as well as a separate premium for each automobile used by chauffeurs.

The unit of exposure to which the rates are applied is each \$100 of pay roll. Another method used for determining the premium is receipts. "Receipts" mean the gross amount of money charged by the insured for the operations, and must include taxes. However, taxes which the insured collects as a separate item and renders directly to a governmental division will be excluded, provided accurate records of the taxes are maintained apart from other receipts. The unit of exposure to which rates are applied is each \$100 of receipts.

**CLASSIFICATION PROCEDURE.**—An analysis of the operations of a businessman will indicate usually that he is engaged in one operation, such as the manufacture of clothing. He may also employ clerks, drivers or chauffeurs, salesmen, and messengers whose duties are principally away from the premises. A business firm engaged in any of the building operations may employ clerks, draftsmen, and drivers or chauffeurs in addition to the workmen necessary for the building operation.

At times, an industrial firm, as for example, a cotton mill, may engage in several independent operations. The owner of the cotton mill may also engage in the manufacture of shirts. As another illustration, a building contractor may perform various types of building operations, such as carpentry, painting, and steel erection. In order to determine the premiums, insurance companies have classified the various business operations of enterprises, as for example, "Acid Manufacturing," "Clothing Manufacturing," "Ice Cream Manufacturing," and so on. These classifications are contained in a manual of rules used by insurance companies.

**SINGLE ENTERPRISES.**—If a risk consists of a single operation or a number of separate operations which normally prevail in the business described by a single manual classification, that single classification which most accurately describes the entire enterprise is applied to determine the premium. However, division of pay roll must be made in respect to Standard Exceptions and any Classification Exclusions. No division of pay roll is permitted in respect to any other operation, even though the operation may be specifically described by some other classification or may be conducted at a separate location. Standard Exceptions and Classification Exclusions will be discussed on pages that will follow in this chapter.

As stated above, some firms engage in more than one separate enterprise. The owner of a cotton mill may decide to use his manufactured cloth for manufacturing dresses. These are two distinct operations and, if possible, should be classified separately. Incidentally, that classifica-

tion, other than the Standard Exceptions classifications, which carries the largest amount of pay roll is designated as the governing classification.

**MULTIPLE ENTERPRISES.**—If a risk includes a separate operation which does not normally prevail in the business described by the governing classification, the operation will be rated separately in accordance with the following rules :

1. If the separate operation is described by a classification which carries a rate either equal to or higher than the rate for the governing classification, division of payroll will be required provided that :
  - (a) The separate operation is not described by any of the Classification Inclusions. Classification Inclusions are discussed on page 496.
  - (b) The division is not contrary to the classification phraseology used in the manual.
  - (c) The division is not contrary to the provisions of any other rules of the manual used by the company.
2. If the separate operation is described by a classification which carries a rate lower than the rate for the governing classification, division of pay roll will be permitted only when the conditions as provided in section 1 and the following additional conditions are met :
  - (a) The entire operation, except as provided for miscellaneous employees and for employees classed as Standard Exceptions, is conducted without interchange of labor either in a separate building or on a separate floor of a building or on the same floor with other operations but separated by such structural partitions as effectively segregate the separate operations.
  - (b) The employer conducts such operations as a separate undertaking with separate records of pay roll.

**CONSTRUCTION OR ERECTION WORK.**—The rules for multiple enterprises do not apply to construction or erection work. If a risk includes construction or erection work, division of pay roll must be made for each separate and distinct type of construction or erection operation which is specifically described by a manual classification (1) provided that separate records of pay roll are maintained, (2) the use of any such classification in connection with a separate job or location is not restricted by any manual qualifications. Operations which normally prevail in connection with a manual classification will not be subject to division of pay roll. In view of the fact that there are material differences in rates, the insured should keep separate records. Operations for which no separate records of pay roll are maintained are assigned to the highest rated classification applicable to the job or location.

**CLASSIFICATION INCLUSIONS.**—There may be some operations which might be considered to be separate operations but which are actually incidental, such as commissaries, restaurants, dispensaries, plant hospitals, and printing. The pay rolls for these operations are not reported separately, but are reported in the governing classifications unless prohibited by manual rules.

The following operations are considered to be incidental to the business operations :

1. Aircraft travel by employees in sole capacity of passenger, including employees whose pay roll is assigned to the Standard Exception classifications.
2. Commissaries and restaurants, except in connection with construction, erection, lumbering, or mining operations.
3. Manufacture of containers, such as bags, barrels, bottles, boxes, cans, cartons, or packing cases.
4. Plant hospitals or dispensaries.
5. Maintenance of ordinary repair of insured's buildings or equipment except as limited by classification Exclusion #1 as explained on this page.
6. Printing or lithographing.
7. Pick-up and delivery.
8. Stores at the same location as manufacturing operations, where the principal store sales are of products manufactured by the insured, unless prohibited by manual rules.

**CLASSIFICATION EXCLUSIONS.**—During the course of business, certain work may be undertaken in connection with the operation, which can hardly be said to be incidental to the operation. Under the rules of the manual, the following hazards must be separately classified and rated :

1. New construction or demolition operations, including changing the size of or moving buildings or other structures performed by or under contract with the insured.
2. Stevedoring, and tallymen or checking clerks connected therewith, except where such operations are performed by, and at premises occupied exclusively by the insured.
3. Hod or material hoist operation.
4. Contractor's equipment rented to others, regardless of the basis of rental.

**STANDARD EXCEPTIONS.**—The following operations, referred to as Standard Exceptions, are subject to division of pay roll in connection with all classifications, unless prohibited by the manual rules, and are separately classified :

1. *Clerical office employees.* That is, those employees whose duties are confined to keeping the books or records of the insured, conducting

correspondence, or who are engaged wholly in office work where such books or records are kept or where such correspondence is conducted, having no other duty of any nature in or about the employer's premises. If any clerical office employee is exposed to any operative hazard of the business, his entire pay roll must be assigned to the highest rated classification of work to which he is exposed. The classification will be applied only to persons who are employed exclusively in separate buildings or on separate floors of buildings or in departments on such floors which are separated from all other work places of the employer by structural partitions and within which no work is performed other than clerical office duties.

2. *Draughtsmen.* That is, those employees whose duties are limited to office work only and who are engaged strictly as draughtsmen in such a manner that they are not exposed to the operative hazard of the business. If any draughtsman is exposed to any operative hazard of the business, his entire pay roll will be assigned to the highest rated classification of work to which he is exposed.
3. *Salesmen, collectors, or messengers (outside).* That is, those employees engaged principally in any such duties away from the premises of the employer. This classification does not apply to any employee whose duties include the delivery of any merchandise handled, treated, or sold.

**PAYMENT OF PREMIUM.**—The premium is paid in advance and is determined by an estimate of the pay roll or receipts for the year. The premium can also be adjusted semiannually, quarterly, or monthly.

1. *Annual premium adjustment.* On policies which provide for adjustment of premium at the termination of policies of one year or less, the deposit premium required is the full premium calculated at the rates on the estimated exposure for the entire policy period.
2. *Interim premium adjustment.* On policies which provide for adjustment of premium on an interim basis, the deposit premium will be determined as follows:
  - (a) Monthly basis. Not less than 25% of the estimated annual premium.
  - (b) Quarterly basis. Not less than 50% of the estimated annual premium.
  - (c) Semiannual basis. Not less than 75% of the estimated annual premium.

The deposit premiums will be retained by the company until the expiration of the policy and credited to the final premium adjustment.

**DIVISION OF SINGLE EMPLOYEE'S PAY ROLL.**—Some employers may require the employees to perform work described by two or more classifications. The pay roll of any one employee cannot be divided

between two or more classifications. The entire pay roll of each employee must be assigned to the highest rated classification representing any part of his work. This rule does not apply in the case of construction, erection, or stevedoring work where the rules of the manual permit division of pay roll, provided the original records of the employer disclose the proper allocation of the individual employee's time.

**EXECUTIVE OFFICERS.**—The salaries of officers are generally much higher than the average salary paid to other employees. Executive officers of a corporation are defined as the president, and any vice-president, secretary, and treasurer.

The pay roll of all executive officers will be included in the statement of pay roll and premiums charged, subject to a maximum individual pay roll of \$100 per week and to a minimum individual pay roll of \$30 per week. The entire pay roll so developed of each executive officer will be assigned without division to the classification which is applicable to the actual operations in which the executive officer is primarily engaged. However, the entire pay roll so developed of each executive officer who performs such duties as are ordinarily undertaken by a superintendent, foreman, or workman, or whose duties include direct charge of the actual performance of any operations of the risk, must be assigned without division to the highest rated classification which is applicable to any duties undertaken by the executive officer for any part of his time.

**INDIVIDUAL INSUREDS OR COPARTNERSHIPS.**—In view of the fact that the entire remuneration must be reported, pay roll must also be reported for the individual owner or for the partnership. A pay-roll amount for an individual insured or copartner must be included in the statement of pay roll at a fixed sum of \$2,000 each per annum.

**CONSTRUCTION, DEMOLITION, AND INSTALLATION PERMIT.**—The policy for a manufacturer covers accident due to repairs and alterations, but does not provide coverage for additions to or demolition of existing structures. Coverage for new construction or demolition operations, including changing the size of a building or structure at the insured premises where other buildings or structures of the insured are located, and coverage for installation, removal, servicing, and demonstrating of goods or products manufactured, sold, handled, or distributed by the insured, when such operations are performed by independent contractors under contract with the insured, and coverage for omissions or supervisory acts of the insured in connection with such work, is provided under a construction, demolition, and installation permit endorsement in accordance with the classifications, rules, and rates for Owners' or Contractors' Protective Liability Insurance. This endorsement is not available for a contractor.

The standard limits of liability for the manufacturers' and contractors' liability policy is \$5,000 for injury to one person in one accident and \$10,000 for injury sustained by two or more persons in one accident. The standard limits can be increased by endorsement. Illustrations of charges for increased rates for some classifications are:

(Limits are in thousands)

Limit per Accident	Limit per Person				
	5	10	25	50	100
10	1.00	1.08			
20	1.04	1.12			
50	1.08	1.16	1.20	1.23	
100	1.09	1.17	1.21	1.24	1.25

For a limit in excess of \$300,000, the risk must be submitted for rating to the bureau of which the company is a member.

If the insured must pay an amount on each claim, a reduction in the premium will be allowed for the use of a deductible clause.

The standard property damage limit is \$1,000 for all damages arising out of one accident, and subject to this limit there is an aggregate limit of \$10,000 for all damages arising out of injury to or destruction of property during the policy period. Aggregate limits apply separately to each project with respect to operations being performed away from premises owned or rented by the named insured. If the policy is written on a three-year basis, the aggregate limits apply separately to each annual period. The standard limits can be increased upon payment of an additional premium, as the following table illustrates:

(Limits are in thousands)

Aggregate Limit	Limit per Accident			
	5	10	25	50
25	1.25	1.34	1.41	
50	1.27	1.37	1.45	1.51
100	1.29	1.39	1.48	1.55

If the estimated annual premium for property damage liability for basic limits is \$2,000 or more, the risk must be submitted to the bureau of which the company is a member for the determination of the basic aggregate limit and the factors for increased aggregate limits. A reduction in the premium will be allowed if a deductible clause is used.

Frequently when a manufacturers' or contractors' policy is issued, there may be other interests connected with the insured who may also be held responsible in case of accidents due to negligence as, for example, stockholders, receivers, trustees, and agents in charge of property.

The various interests may desire to be covered by one policy. Under certain circumstances, this request will be granted without any additional premium charge. For other interests, coverage will be included at an additional premium charge. By endorsement, the policy will cover the additional interests subject to a premium charge or without any premium charge. For certain interests, coverage cannot be included in the same policy, but a separate policy must be purchased.

There is no premium charge in the manufacturers' liability coverage for the following additional interests :

1. Executors, administrators, trustees, or beneficiaries, on policies covering estates of deceased persons or living trusts.
2. Co-owners or partners in the subject matter of the insurance.
3. Agents having care, custody, control, and operation of property, on policies covering owners or general lessees.
4. Executive officers, directors, or stockholders of a corporation, but only for liability as such.
5. Owners of land leased to others under long-term contracts and upon which buildings have been erected by the lessees, on policies covering the lessees.
6. Financial control. A single individual, copartnership, or corporation which owns or financially controls one or more corporations on policies covering the corporations, or corporations which are owned or financially controlled by a single individual, copartnership, or other corporation, on policies covering the controlling interests or corporations which they control.

Corporations having not more than ten stockholders on policies covering other such corporations, of which the same group of minority stockholders has financial control, or on policies covering partnerships comprised only of minority stockholders of the corporation who together have financial control of the corporation.

Partnerships on policies covering corporations having not more than ten stockholders, providing that all members of the partnership are minority stockholders who together have financial control of the corporation.

7. Mortgagees, assignees, or receivers, except with respect to any lease or occupancy interest in the premises, on policies covering owners or general lessees.
8. Trustees or members of boards of governors, on policies covering charitable or educational institutions.
9. Trustees, members of boards of governors, or clergymen, on policies covering religious institutions.
10. Elective or appointive officers or members of boards or commissions of public and municipal corporations or their agencies, on policies covering the corporations or agencies.

11. **Cost plus.** Owners or contractors, on policies covering contractors or subcontractors, with respect only to operations undertaken by the contractor for the owner or by the subcontractor for the contractor, and only when the work to be undertaken is on a cost-plus-percentage or cost-plus-fixed-fee basis.

The cost plus provision does not apply to any of the following :

- (a) Shipowners or operators with respect to policies covering contractors or subcontractors performing stevedoring, freight handling, or refrigerator car loading or unloading operations.
  - (b) Owners or lessees of premises with respect to policies covering contractors engaged in care and maintenance operations.
12. **Husband and wife.**
  13. **Members of clubs or unincorporated associations,** but only as respects the liability for activities of the club or association as such or for activities which are performed on behalf of the club or association other than practice or participation in any game or sport.

The following additional interests can be included, subject to a premium charge :

1. **Liability of municipalities and other governmental units.** Coverage for the liability of governmental units on policies issued to the owner or lessee of the premises, in connection with permits involving the construction, erection, existence, maintenance, repair, or removal of advertising signs, awnings, canopies, cellar entrances, coal holes, driveways, manholes, marquees, sidewalk elevators, hoistway openings, or sidewalk vaults and similar exposures at various premises.
2. **Gasoline or oil supply stations—retail.** Lessors of premises occupied, and operators of the stations.
3. **Employees other than executive officers.**
4. **Shipowners or operators on policies covering contractors or subcontractors performing stevedoring, freight handling, or refrigerator car loading or unloading operations,** where the contract is on a cost-plus-percentage or cost-plus-a-fixed-fee basis.
5. **Volunteer workers.** Risks involving coverage for the personal liability of volunteer firemen, auxiliary policemen or other volunteer workers in connection with their volunteer activities on policies covering the interest for whom such activities are performed.
6. **Any other additional interests can be included at an additional premium charge, except as stated below.**

The following additional interests cannot be included unless they can be included without any additional charge, as explained above :

1. **Owners, managers, or operators of premises, or interests from whom premises have been rented or leased, on policies covering lessees or tenants except for gasoline or oil supply stations.**
2. **Tenants or lessees on policies covering owners, managers, or opera-**

tors of premises or interests from whom premises have been rented or leased, except for gasoline or oil supply stations.

3. Owners or lessees on policies covering contractors or subcontractors.
4. Contractors on policies covering owners or lessees or subcontractors.
5. Subcontractors on policies covering owners or lessees or contractors.
6. Governmental units (in connection with construction or erection permits) on policies covering contractors or subcontractors.

The problem of additional interests applies to various other public liability policies, and, subject to a few limitations and variations, the explanation stated above applies to other public liability policies.

**Product Liability.**—Some manufacturers, such as manufacturers or distributors of food products, may be held liable because of sickness or death due to the consumption of the products away from the premises of the manufacturer or dealer. Protection against such liability can be obtained by endorsement on the public liability policy.

**LIABILITY LIMITS.**—Standard limits for product bodily injury or death claims are \$5,000 for injury to one person, and \$10,000 for injury to several persons in one accident, subject to an aggregate limit of \$25,000 for the entire policy period. For property damage the limit is \$1,000 per accident, subject to an aggregate limit of \$10,000 for the entire policy period.

When merchandise or products from one prepared or acquired lot cause injury to more than one person, the policy provides that all such injuries from a common cause constitute one accident. This rule applies whether the lot has been sold by the insured as a whole or in parcels.

A risk for which the estimated annual premium for product bodily injury liability for basic limits is \$5,000 or more and product property damage liability is \$2,000 or more must be submitted for determination of the basic aggregate limit and the factors for increased aggregate limits.

**BASIS OF PREMIUM—PRODUCT.**—The premium for product liability insurance depends upon the following factors:

- |                                       |                             |
|---------------------------------------|-----------------------------|
| 1. Classification of the risk.        | 3. Increased limits.        |
| 2. Volume of sales receipts or units. | 4. The use of a deductible. |

Three methods are used for determining the premium for product liability. These are as follows:

1. *Sales.* The term "sales" means the gross amount of money charged by the insured or by others on the premises trading under his name (a) for all goods and products sold or distributed, (b) for installation, servicing, or repair operation by the person or by others, including taxes. However, the taxes which the insured and the owners

collect as a separate item and render directly to a governmental division will be excluded, provided accurate records of the taxes are maintained apart from other receipts. The rate is applied to each \$1,000 of sales.

2. *Receipts.* The term "receipts" means the gross amount of money charged by the insured for the operations by the insured or by others, including taxes. However, the taxes which the insured collects as a separate item and renders directly to a governmental division will be excluded, provided accurate records of the taxes are maintained apart from other receipts. The rate is applied to each \$1,000 of receipts.
3. *Units.* This basis of premium involves units of exposure, and the quantity comprising each unit of exposure, as for example per 1,000 wheels for manufacturers of automobile, truck, or airplane wheels.

**VENDOR'S LIABILITY.**—A manufacturer or dealer may desire to protect his various distributors against possible product liability actions by the customers of the distributors. The product liability coverage of manufacturer or dealer who is the named insured can be endorsed to include vendors.

The coverage for vendors on policies issued to manufacturers and distributors as named insured is available on the following bases:

1. The vendor will be protected except for loss due (a) to liability arising from the negligence of the vendor, (b) to any express warranties unauthorized by the named insured, and (c) to any person or organization from which the named insured has acquired goods or products, or any ingredients, part, or container entering into, accompanying, or containing any goods or products.
2. Coverage is also available for the vendor covering the complete liability of the vendor with respect only to merchandise of the manufacturer or distributor in which the vendor has an insurable interest, providing the vendor does not (a) change the form of the merchandise, (b) repack the merchandise, and (c) perform any demonstration, installation, servicing, or repair operation in connection with the merchandise away from the vendor's premises.

A vendor who changes the form or repacks the merchandise of manufacturer or distributor cannot be included as an additional interest on product liability policies covering the manufacturer or distributor as named insured. A vendor who does not change the form of merchandise, but who performs demonstration, installation, servicing, or repair operation in connection with the merchandise from the vendor's premises, must be submitted for rating to the bureau of which the company is a member.

**Protective Public Liability Policy.**—A manufacturer may own some land and hire a contractor to erect an additional factory. During

the course of construction an accident may occur to a third party. While the contractor is primarily responsible, the owner of the land may also be sued. Protection against this contingency can be obtained by the owner of land through a protective public liability policy. The policy provides protection for accidents arising from the work performed for the insured by independent contractors, from omissions or supervisory acts of the insured in connection with the work. A contractor can also protect himself, similarly, in connection with the operations of a sub-contractor.

The following are important statements which must be made by the applicant for insurance :

1. Location of the premises.
2. Description of the work.
3. Estimated total cost of the work.
4. Whether any company during the past year has declined or canceled similar insurance provided by the policy, except as stated by the insured.
5. Whether any employee of the insured will be engaged in any work on the premises, except as stated by the insured.
6. Whether the insured will furnish any materials or appliances, except as stated by the insured.

**EXCLUSIONS.**—Under the policy, the company is not liable for any of the following :

1. Liability assumed by the insured under any contract or agreement.
2. Operations other than pick-up and delivery, and the existence of tools, uninstalled equipment, and abandoned or unused material if the accident occurs after the operations have been completed or abandoned at the place of occurrence of the accident.
3. Injuries of any employee of the insured while engaged in the employment of the insured or to any obligation for which the insured may be held liable under the workmen's compensation law.
4. Injury to or destruction of property owned, occupied, or used by, rented to, or in the care, custody, or control of the insured.

**LIMITS.**—As in the public liability policy, the company will be liable, subject to the limits of the policy for each injury suffered by any person during the policy period. The standard limit is \$5,000 for one person in one accident, and \$10,000 for more than one person in one accident. Limits in excess of \$300,000 are subject to the same provision as the manufacturers' and contractors' policies.

**PROPERTY DAMAGE LIABILITY.**—Manual rates provide for a limit of \$1,000 for all damages arising out of injury to or destruction of property in any one accident, and, subject to that limit per accident, an

aggregate limit of \$10,000 for all damages arising out of injury to or destruction of property during the policy period. Incidentally, the aggregate limit applies separately to each project. The rule for the estimated annual premium for basic limits in excess of \$2,000 is similar to the rule for the manufacturers' and contractors' coverage.

The rate for protective public liability insurance depends upon :

1. Territory of the risk.
2. Classification of the risk.
3. Increased limits.
4. Deductible.

The bases of premium used and the units of exposure for protective liability generally include the following items :

1. *Total cost of the job.* That is, the total cost of all work let or sublet in connection with each specific project. The cost includes expenditures for all labor, materials, and equipment furnished, used, or delivered for use in the execution of the work, whether furnished by the owner, contractor, or the subcontractor, as well as all fees, allowances, bonuses or commissions, made, paid, or due. The unit of exposure to which the rates are applied is each \$100 of total contract cost.
2. *Area.* That is, the total number of square feet of floor space of buildings or parts to be demolished. This is computed on the horizontal dimensions outside the outer walls of buildings. The area of mezzanine floors, air shafts, and elevator shafts is included. The area of basements is excluded. The unit of exposure to which the rates are applied is each 100 square feet of area.

Other illustrations where protective liability can also be used are the following :

1. Interests for whom miscellaneous contracting operations, such as stevedoring, freight handling, hauling work, window cleaning, and cleaning or renovating outside surfaces of buildings are performed by independent contractors, independently of construction or demolition operations.
2. Architects or engineers engaged in construction or demolition operations. For these risks the policy excludes coverage for claims arising out of faulty plans or specifications. However, coverage may be obtained for this hazard.
3. Manufacturers or dealers for whom installation, removal, servicing, or demonstration of goods or products is performed by independent contractors.

**Elevator Liability.**—A policy can be written protecting the insured for injuries to persons or damage to property caused by the operation

of the elevators. The following information must be given by the applicant for insurance:

1. Location of the premises.
2. Number of stories.
3. Description of insured's premises and use of premises.
4. Description of elevators, that is number, kind, power, and name of maker.
5. Whether each elevator car gate is equipped with an approved gate electrical contact, and whether each elevator shaft or hoistway is equipped with approved hoistway door interlocks, stating the name of the manufacturer and trade name of the equipment.
6. Whether any company has declined or canceled any kind of elevator insurance.

The general provisions of this policy follow the manufacturers' and contractors' liability policy.

**EXCLUSIONS.**—Many of the exclusions of the elevator liability policy are also similar to the manufacturers' and contractors' policy. Specifically, the exclusions provide that there is no liability for any of the following:

1. Any obligation assumed by or imposed upon the insured under any workmen's compensation law, agreement, or plan.
2. Any liability of others assumed by the insured.
3. Destruction or damage of property owned, used, or occupied by or rented to the insured. This exclusion is not as broad as the exclusion in the manufacturers' and contractors' policy, since the exclusion does not apply to the goods in the care, custody, or control of the insured.

In view of the great hazard due to the operation of an elevator when in a dangerous physical condition, the policy provides that the company or any of its inspectors can suspend the insurance as respects the entire risk, or as respects any elevator, by written notice served on the insured or mailed to the insured by any duly authorized employee. An inspection may disclose that the physical condition of the elevator presents a hazard which is dangerous, and therefore until repairs are made the company would not desire to continue the risk. After satisfactory repairs are made, the company will reinstate the insurance by a statement in writing signed by a duly authorized employee.

Since the company is not liable during the period of suspension, the policyholder is entitled to a return of premium during the period of the suspension.

The standard limit for bodily injury is \$5,000 for injuries to one person in one accident, and subject to that limit for each person, a total limit of \$10,000 for two or more persons in any one accident. This limit applies separately to each insured elevator. Upon payment of an additional premium, the limits can be increased. If the limit is in excess of \$300,000, the risk must be submitted for rating to the bureau of which the company is a member. The standard limit for property damage liability is \$1,000 for all damages that arise out of one accident, and is separately applicable to each elevator. Upon payment of an additional premium, these limits can be increased.

**ELEVATOR COLLISION INSURANCE.**—Elevator collision insurance may be written when elevator property damage liability insurance is obtained concurrently in the same company. This policy indemnifies the insured against direct loss or damage to any elevator or other property owned, leased, occupied, or used by the insured, or in his care, custody, or control, caused by collision of the elevator or its contents with another object. Property in the care, custody, or control of the insured applies only to property not covered by elevator property damage liability insurance.

Losses are not covered by the elevator collision endorsement under the following circumstances :

1. Caused directly or indirectly by fire.
2. Caused directly by the breaking or burning out of any electrical machine outside the car of the elevator.
3. Damage to any electrical machine, by reason of its breaking, burning out, or disruption.
4. Loss of use.
5. Liability assumed under any contract or agreement.

The elevator collision policy is subject to a limit of \$1,000 per accident, unless increased by written agreement.

**TENANT'S PROTECTIVE ENDORSEMENT.**—A tenant may have occasion to operate the elevator in the building in conjunction with others. If a tenant of a part of a building operates an elevator in common with, but not for, other tenants, and does not furnish power, control, or undertake the repair or maintenance of the elevator, an elevator liability policy may be written to cover the tenant only, at 50% of the rates which would be applicable to the elevator when operated by the owner or general lessee of the building. If the tenant operates more than one elevator under the above conditions, the risk must be submitted for rating to the bureau of which the company is a member.

**LANDLORDS' PROTECTIVE LIABILITY.**—The landlord may lease his building to another. Under such circumstances, the lessee would be

primarily liable for any elevator accident. However, the landlord might possibly also be held liable. A liability policy can be written at 50% of the liability rates, provided that the following has taken place :

1. The landlord has leased an entire building, or a part of a building, in which elevators are located, under a written lease to another.
2. The lessee controls and operates such elevators, furnishes power, and has charge and control of the building or part of the building in which the elevators are located, except that the lessor may undertake the repair or maintenance for the preservation, only, of the premises.

**RATES.**—Premiums charged for elevator liability insurance are based on the following factors :

1. Territorial location of the risk.
2. Type of building in which the elevators are operated.
3. Type of elevator.
4. Number of elevators insured.
5. Liability limits.
6. Discounts for safety devices.
7. Use of deductible.

A discount is allowed for bodily injury liability if the elevators are equipped with properly installed, approved, hoistway-door interlocks.

Another discount is allowed for bodily injury if the elevators are equipped with any of the following appurtenances, properly installed.

1. Car-gate or car-door electrical contacts which prevent the normal operation of a car unless the car-gate or car-door is within two inches of full closure.
2. Car-gate or car-door mechanical interlocks which have been approved on the basis specified above for hoistway-door interlocks.

The car-gate or car-door contacts or interlocks discount is not applicable to private house elevators or to elevators subject to the tenants' protective liability rule. For car-gate or car-door mechanical interlocks, the discount is applicable only to elevators controlled from the car. For contacts, the discount is not applicable to push-button controlled elevators equipped with floating platform devices.

**Owners', Landlords', and Tenants' Public Liability Policy.**—The owner of a building, or the general lessee or tenant who occupies part or the entire building, may be held liable for injuries to others or for damage to the property of others caused by negligence due to the operation or use of the building. Coverage against this contingency can be obtained by the owners', landlords', and tenants' public liability policy. If desired, coverage for elevators can also be included in this policy. The policy requires that the following statements must be made by the applicant for insurance :

1. The interests of the insured in the premises, that is, whether owner, general lessee, or tenant.
2. Location of the premises, description of the occupancy of the premises, part of the premises occupied by the insured, and the use of such part. If elevator liability is included, a description of the elevators, that is, number, kind, power, and name of maker, approved interlocks, approved gate contacts.
3. Whether any insurer has canceled any similar insurance or declined to issue the insurance during the past year, except as stated in the declarations.

This policy contains provisions similar to the manufacturers' and contractors' policy. A special clause considers the possibilities that during the year the insured may acquire other premises, or that there may be a change in the insured's operations. Therefore the policy provides that if there is any change in the operation of the insured at the premises, or if the insured acquires ownership or control of other premises, or assigns or rents property to others, or locates it for use by others away from the premises, the policy will cover the new operations, premises, and hazards. Furthermore, the policy will also cover any elevators newly installed at the premises or in existence at the new premises when the insured acquires ownership or control.

The automatic coverage will apply only provided the insured notifies the company within 15 days following the date of the undertaking of the operations, or acquisition of property, or installation of objects covered by the policy.

**EXCLUSIONS.**—Since the policy covers only accidents due to the maintenance of the building (and elevators if insured), there will be no coverage for any of the following:

1. Ownership, renting, maintenance, or use of aircraft by or in the interests of the insured.
2. Ownership, renting, maintenance, care, or use of boats, dogs, draft or saddle animals, animal-drawn or power-driven vehicles, and vehicles attached, vehicles from which merchandise is sold, or any other vehicle while rented to another, while away from the premises.

The exclusion does not apply to the following equipment, except while towed by or carried on a power-driven vehicle: crawler-type (continuous tread) tractors, ditch or trench diggers, power cranes or shovels, graders, scrapers, rollers, well-drilling machinery, asphalt spreaders, concrete mixers, mixing and finishing equipment for highway work, other than concrete mixers of the mix-in-transit type, farm implements; and, if not subject to motor vehicle registration, farm tractors or trailers and equipment used principally on the insured premises.

3. Ownership or maintenance of signs or machinery or equipment or other property rented to or located for use by others or for operation in connection with such renting or use away from the premises.
4. New construction or demolition operations, including changing the size of or moving buildings or other structures performed by or under contract with the insured.
5. Operations on or from other premises which are owned, rented, or controlled by the insured.
6. Any other elevator in a building owned, rented, or controlled in whole or in part by the insured, other than an elevator which is not operated, maintained, or controlled by the insured, and is located in a building of which the insured is not the owner, general lessee, or sole tenant, unless the elevator is specifically declared and described in the policy.
7. Liability assumed by the insured under any contract or agreement.
8. Handling or use of or the existence of any condition in goods or products manufactured, sold, handled, or distributed by the insured if the accident occurs after the insured has relinquished possession of the products to others and away from premises owned, rented, or controlled by the insured.
9. Operations other than pick-up and delivery and the existence of tools, uninstalled equipment, and abandoned or unused materials if the accident occurs after the operations have been completed, or abandoned at the place of occurrence and away from premises owned, rented, or controlled by the insured.
10. Bodily injury, sickness, disease, or death of any employee of the insured while engaged in the business of the insured or to any obligation for which the insured may be held liable under any workmen's compensation law.
11. Injury to or destruction of any of the following:
  - (a) Property owned, rented, occupied, or used by, or, except as respects elevators in the care or custody of the insured.
  - (b) Buildings or contents, caused by the discharge, leakage, or overflow of water or steam from plumbing, heating, refrigerating or air conditioning systems, elevator tanks or cylinders, stand-pipes for fire hose or industrial or domestic appliances, or any substance from automatic sprinkler systems or by the collapse or fall of tanks or the component parts or supports of the tanks which form a part of the automatic sprinkler systems; or by rain or snow admitted directly to the building interior through defective roofs, leaders, or spouting, or open or defective doors, windows, skylights, transoms, or ventilators, insofar as any of these occur on or from premises owned or rented by the insured. This exclusion is not applicable to policies covering one apartment, two-family dwellings, farms, and private residences.

**MEDICAL PAYMENT COVERAGE.**—The liability of the insurance company for the various policies discussed in this chapter depends upon the negligence of the insured. At times the insured may desire that the injured person should be reimbursed for medical expenses, although no negligence can be shown against the insured. In order to meet this need, medical payment coverage is provided. This coverage will be discussed in detail in connection with the comprehensive personal liability policy on page 520. The insurance is available only when written in the same policy as the owners', landlords', and tenants' liability.

A discount for medical payment coverage is allowed if any of the following contingencies arise:

1. If a licensed physician or graduate nurse is employed by the insured, and is in constant attendance on the premises.
2. If any person or organization is under contract to the insured to provide services.

This discount is not accumulative, if one or more of the provisions apply.

The medical payment coverage is also available in connection with elevator liability insurance at premises rated on owners', landlords', and tenants' liability basis. A discount for medical or nurse services at the building is likewise available, subject to the same regulations as described above for the medical payment coverage for owners', landlords', and tenants' liability insurance.

Incidentally, medical payment coverage can also be provided in connection with manufacturers' and contractors' liability and other forms of general liability insurance. The rates and scope of coverage will be established on submission of data for each individual risk by the company to the bureau of which it is a member.

**RATES.**—Charges for owners', landlords', and tenants' liability policy are generally based upon the following factors:

1. The territory in which the property is located.
2. The type of property insured.
3. *Area.* That is, the total number of square feet of floor space of the insured premises except if otherwise specified by the manual rules. The area will be computed thus:
  - (a) For entire buildings, on the horizontal dimensions outside their outer walls, including the area of
    - (1) Balconies, porches, verandas, stoops, steps, entranceways, gymnasiums and swimming pools, inside the outer building walls.
    - (2) Mezzanine floors (excluding the area of mezzanine floor openings).

- (3) Basements, except as subsequently explained.
- (4) Air shafts and elevator shafts.
- (5) Premises occupied by concessionaries or tenants.
- (b) The following areas will be excluded :
  - (1) Portions of basements used for storage or delivery purposes, building maintenance shop, dwelling by building maintenance employees, heating or power plants, and other purposes which do not permit admission of the general public. However, portions of basements used for purposes such as, but not limited to, baby carriage storage, garages, gymnasiums, laundries, locker and shower rooms, or playrooms, must be included. A grade floor on which the majority of the area is used for shop or storage in connection with building maintenance, dwellings by building maintenance employees, and heating or power plants will be considered as a basement.
  - (2) Separate roof structures used exclusively for housing elevator, air conditioning, or other ventilating machinery and equipment ; stairwells or stairways.
  - (3) Courts.
- (c) For tenants of entire floors above the grade floor, the area will be computed in the manner described above. No deductions will be made for public hallways, washrooms, elevator shafts, air shafts, or stairwells even though such space is not rented by the insured.

For tenants of parts of floors or of entire grade floors or basements, the area will be computed in the manner described above, except that

- (1) The area will be computed in the horizontal dimensions of the premises to be insured, inside the walls forming the boundary of the premises.
- (2) If the insured occupies space in the basement only, no portion of the area can be excluded.

Coverage cannot be excluded for premises used for storage or other purposes which do not permit admission of the general public, or premises occupied by concessionaires. The premium depends upon each 100 square feet of area.

4. *Frontage of the building.* "Frontage" means the number of lineal feet of the entire property abutting upon the street or public highway, and includes all alleyways having sidewalks on one or both sides and all alleys when the principal entrance to the premises is from the alley.

No frontage charge is made for an insured who is not an owner or general lessee, and occupies premises (a) above the first or grade floor only ; (b) below the first or grade floor only, except for that portion over which the insured has charge or control ; or (c) on the

grade floor without direct entrance from the street, except for such portion of the frontage over which the insured has charge or control. The premium depends upon each linear foot of frontage.

5. Liability limits for bodily injury and property damage are similar to elevator insurance limits.

Other methods of determining premium rates are employed in particular circumstances, as illustrated by the following cases :

1. Admissions, that is the total number of persons admitted to the event insured or to events conducted on the insured premises, whether on paid admission tickets, on complimentary tickets, or on passes. Employees whose duties are incidental to the insured event are not included. The unit of exposure is each 100 of admissions.
2. Receipts as defined in the rule of manufacturers' and contractors' policies. The premium depends upon each \$100 of receipts.
3. Teams, that is horses or other animals, vehicles for use with the animals. The number of teams is obtained by dividing the amount of remuneration earned by drivers (as determined by an audit), by the average annual remuneration paid to the drivers. There is also added the number of teams driven by persons who do not receive wages as drivers, and the number of teams hired from others. If the insured hires teams from others, including drivers, one-half of the total cost of hire is used as the remuneration of the drivers. The premium depends upon each team.
4. Units. The basis of premium involves units of exposure designated variously as "each," "per person," "per pupil," "per camper," "per dog," "per member," "per animal," "per horse," or "per vehicle."

Like the manufacturers' policy, the owners', landlords' and tenants' liability policy covers repairs and alterations, but not new construction or demolition operations performed by or under contract with the insured. Coverage for such new construction or demolition operations including changing the size of buildings or structures at the insured's premises where other building or structures of the insured are located, omissions, and supervisory acts of the insured in connection with such work may be provided under a Construction and Demolition Permit Endorsement. The rates will be subject to the classification and rules applicable in (1) manufacturers' and contractors' liability if the operations are performed by the employees of the insured; (2) owners' or contractors' protective liability if the operations are performed for the insured by an independent contractor.

**LANDLORDS' PROTECTIVE LIABILITY ENDORSEMENT.**—When a landlord leases his building, the lessee becomes primarily liable for accidents. The landlord may be subject, however, to contingent liability for structural or latent defects of the building. This hazard is met by the landlords' protective liability endorsement, which protects owners or general

lessees who have sublet the entire building to others over whose acts they have no direct control.

To obtain this endorsement, the owner or general lessee must have leased the entire premises or at least 90% of the premises. The person to whom the property is leased must have full charge of the premises, must control and operate all elevators, and must furnish power. The owner or general lessee, however, may undertake all repairs and maintenance necessary to preserve the premises.

By means of this endorsement rates are reduced to 50% of the premiums which would otherwise apply to owners and general lessees.

**Comprehensive General Liability Policy.**—As can be seen from the description of the various liability policies previously discussed, a business man, subject to various hazards for which he may be held liable for injuries to persons or damage to property of others, can obtain separate liability policies covering these various hazards. However, if he desires, he can obtain a comprehensive general liability policy which will protect him against all liability, subject to the limitations of the policy provisions.

The premium for the comprehensive policy is based on rates charged for the following hazards :

1. Manufacturer's, contractor's, or owner's, landlord's and tenant's liability.
2. Elevator liability.
3. Protective liability.
4. Contractual liability.
5. Product liability.

If the insured desires, he can specifically eliminate coverage for contractual liability and product liability. In addition, the insured is not required to purchase property damage coverage unless he so elects. As in the various liability forms deductible insurance is available.

Special provisions which apply to the comprehensive liability policy are as given below.

1. **EXCLUSIONS.**—The policy does not apply to the following :
  - (a) To liability assumed by the insured under any contract or agreement not defined in the policy.
  - (b) Except with respect to operations performed by independent contractors, to the ownership, maintenance, or use, including loading or unloading of any of the following :
    - (1) Watercraft, while away from the premises, owned, rented, or controlled by the insured.
    - (2) Automobiles, while away from the premises or the ways immediately adjoining the premises.
    - (3) Aircraft.

- (c) Bodily injury or sickness, disease, or death of any employee of the insured while engaged in the employment of the insured or for which any company as the insurer may be held liable under any workmen's compensation law.
- (d) Injury to or destruction of any of the following :
  - (1) Property owned, occupied, or used by or rented to the insured.
  - (2) Except with respect to liability assumed under sidetrack agreements and the use of elevators or escalators, property in the care, custody, or control of the insured.
  - (3) Any goods or products manufactured, sold, handled, or distributed, or premises alienated by the insured, or work completed by or for the insured, out of which the accident arises.
- (e) Damage to property of others, except with respect to liability assumed under any contract covered by the policy. The term "contract" is defined subsequently.
- (f) Loss due to discharge, leakage, or overflow of water or steam, from plumbing, heating, refrigerating, or air-conditioning systems, elevator tanks or cylinders, standpipes, fire hose, industrial or domestic appliances, or any substance from automatic sprinkler systems; the collapse or fall of tanks or the component parts or supports of the tanks that form part of the automatic sprinkler system: rain or snow admitted directly to the building interior, to defective roofs, leaders, or spouting or open or defective doors, windows, skylights, transoms, or ventilators, insofar as any of these occur on or from premises owned or rented by the insured and injure or destroy buildings or contents of the buildings.

The following exclusions can be eliminated, and the company will therefore assume liability for accident :

- (a) Caused by watercraft.
- (b) Causing damage to property (other than owned property).
- (c) Caused by water, rain, or snow damage at the premises.

2. **INSPECTION.**—In view of the fact that the premium may depend upon operations determined by factors which are variable, such as pay roll or amount of sales or the number of elevators, the company must be permitted to inspect the insured's premises, operations, and elevators, and examine and audit the insured's books and records at any time during the policy period and any extension of the policy period, and within three years after the final determination of the policy so far as they relate to the premium bases or the subject matter of the insurance.

3. **DEFINITIONS.**—For the purpose of the policy, the terms "contract," "automobile," and "product hazards" are specially defined. The term "contract" means (a) a warranty of goods or products; (b) if in writing, a lease of premises, easement-agreement, agreement required by municipal ordinance, sidetrack agreement, or elevator or escalator or

maintenance agreement. Liability for contracts in this group is automatically covered by the policy. Liability for other contracts is covered only after acceptance by the company.

As liability for accidents caused by the operation of automobiles is excluded, the term "automobile" is defined to mean a land motor vehicle, trailer or semitrailer. However, the following equipment will not be deemed an automobile except while towed by or carried by a motor vehicle; any crawler-type tractor, farm implement, farm tractor, or trailer not subject to motor vehicle registration, ditch or trench digger, power crane or shuttle, grader, scraper, roller, well-drilling machinery, asphalt spreader, concrete mixer, and mixing and finishing equipment for highway work, other than a concrete mixer of the mix-in-transit type.

The term "product hazard" means (a) the handling or use of, the existence of any condition in, or a warrant of goods or products manufactured, sold, handled, or distributed by the insured, other than equipment rented to or located for use of others but not sold if the accident occurs after the insured has relinquished possession to others and away from premises owned, rented, or controlled by the insured, or on premises for which the manual classification stated in the policy or in the company's manual excludes such coverage; (b) operation if the accident occurs after the operations have been completed or abandoned at the place of occurrence of the accident and away from premises owned, rented, or controlled by the insured except (1) pick-up and delivery, (2) the existence of tools, uninstalled equipment, and abandoned or unused materials, (3) operations for which the classification stated in the policy or in the company's manual specifically includes completed operations. However, operations will not be deemed incomplete because improperly or defectively performed or because further operations may be required in accordance with a service or maintenance agreement.

4. **LIABILITY.**—The company is liable for each accident, regardless of the number, during the policy period, subject to the limit for each accident. However, for product liability the limits of bodily injury are subject to a total limit during the policy year as explained previously on page 502.

The company is liable for each accident causing damage to property. However, for certain operations, the total liability of the company for property damage is limited to an aggregate amount. During the policy year aggregate limits apply to the following coverages: (a) operations, (b) protective, (c) product, and (d) contractual liability.

The limit for "aggregate contractual" is applied to each contract. These limits apply separately to each project with respect to operations being performed away from premises owned or rented by the insured.

5. RATES.—In view of the fact that all hazards are covered, the cost of the policy is based upon rates charged for the hazards described when the policy is issued. However, since the policy is a comprehensive liability policy and would therefore cover for undisclosed hazards which may develop during the policy year, the premium basis and rates for hazards not described are those applicable in accordance with the manual used by the company.

The premium paid at the inception of the policy is an estimated premium only. Upon termination of the policy, the earned premium will be computed in accordance with the company's rules. If the earned premium exceeds the estimated advance premium, the insured must pay the excess to the company. If the earned premium is less than the advanced premium, the company will return to the insured the unearned portion paid by the insured.

If the premium for a hazard is based upon remuneration, the term is defined as explained for manufacturers' liability coverage. If the premium for a hazard is based upon receipts, the term "receipts" is defined as explained for manufacturers' liability coverage.

Since the charge for contractual liability depends upon the cost of operations, the word "cost" means the total cost of all operations performed for the insured during the policy period by independent contractors on each separate project, including materials delivered for use, except maintenance or alterations and repairs on premises owned or rented by the insured.

As the charge for product liability generally depends upon the amount of sales, the term "sales" is defined as explained for product liability coverage on page 502.

The insured must maintain, for each hazard, records of the information necessary in order to determine the premium. He must send copies of the records to the company at the end of the policy period and at such times during the policy period as the company may direct.

By endorsement, the term "occurrence" can be substituted for the term "accident."

SLANDER AND LIBEL ENDORSEMENT.—The policyholder may be sued by a customer or other person claiming that an employee of the insured committed slander or libel. Coverage against such claims can be obtained by the slander and libel clause. This endorsement to various liability policies provides that the company is liable for (1) slander or libel not committed by or at the direction of the insured, (2) false imprisonment, detention, or malicious prosecution not committed by or at the direction of the insured.

**CROSS LIABILITY ENDORSEMENT.**—At times two corporations may be insured under one liability policy because the interests are the same. Nevertheless an employee of one of the corporations may sue the second corporation for negligence. The cross liability endorsement will therefore provide coverage to any insured under various liability policies against whom claim is made by an employee of any other insured, provided that at the time of accident the relationship of master and servant does not exist between the claimant and the insured against whom the claim is made.

**ANALYSIS OF HAZARDS.**—In view of the fact that the premium will be charged for the various hazards under the comprehensive general liability policy, the insured should make an analysis of the various hazards for which a premium would be charged. An answer to the following questions will enable the insurance company to determine the premium:

*Premises Operations—Miscellaneous.*

1. Does the insured own, rent, lease, or operate any property such as sales offices, mercantile or office buildings, apartment buildings, theaters, warehouses, stores, residences or estates, or operate as concessionaire on anyone else's property?
2. Does the insured own, rent, lease, or occupy any land, farms, camps, docks, or wharves?
3. Does the insured use or advertise through the medium of signs, posters, bulletins, placards, or street banners, which are placed on premises not occupied by the insured?
4. Does the insured act for any property in the capacity of trustee, executor, administrator, guardian, receiver, or in any other fiduciary capacity, or as managing agent?
5. Does the insured sublet any portion of premises he owns, rents, leases, or occupies?
6. Does the insured do any installation, repair, or construction work off the premises?
7. Does the insured demonstrate goods or products away from the premises?
8. Does the insured contemplate any new construction or demolition work?
9. Does the insured rent or lease mechanical equipment to or from others?
10. Does the insured own or operate any railroad, locomotives, freight cars, industrial trucks?
11. Does the insured handle, sell, or use explosives?

12. Does the insured own or operate any watercraft? If so, are passengers carried for a consideration?
13. Does the insured own or occupy any industrial village? If so, what are the number of residences, churches, theaters, stores, and the street mileage?
14. Does the insured have any joint operations with others?
15. Does the insured own or use any dogs away from the insured's premises?
16. Does the insured employ any nurses, doctors, or dentists?
17. Does the insured maintain any hospital, infirmary, clinic, or first-aid station?
18. Does the insured own or operate any beauty parlor, barber shop, bathhouse, drugstore, liquor store, swimming pool, sanitarium, or health institution?
19. Is there any other professional or malpractice exposure?
20. If malpractice or professional exposure is let out on concession, does the concessionaire carry professional liability coverage? If so, what is the policy term and what are the limits carried?
21. Does the insured own, operate, or use grandstands, bleachers, stadiums, clubs, gymnasiums; or sponsor any excursions, concerts, entertainments, conventions? If sports contests are sponsored, are the participants limited to employees of the applicant?
22. Does the insured let or sublet any work to others apart from construction, repair, or demolition of owned or controlled premises?
23. If the product hazard is to be insured, list all products or by-products sold, manufactured, handled, or distributed.
24. Is coverage desired for work completed by or for the insured? This would refer to such things as completed buildings, or parts of the building, completed streets or highways.

*Contractual.*

25. Does the insured have any sidetrack or other agreements with railroads?
26. Does the insured have any leases containing "hold-harmless" clauses?
27. Does the insured have any elevator or escalator agreements under lease or contract?
28. Does the insured have any agreements with dealers, manufacturers, or distributors with respect to goods or products? Do such agreements or purchase-order blanks contain any "hold-harmless" clauses?
29. Has the insured assumed any liability under any municipal or other ordinance?
30. Are there any other agreements under which the insured has assumed liability?

The following questions apply to *Property Damage Liability* only:

31. Are explosion and collapse hazards to be included for manufacturing and contracting risks where the manual rates exclude these hazards?
32. Is water damage on or from premises owned or rented by applicant to be included?
33. Is subsurface damage due to excavating or drilling in streets or highways with mechanical equipment to be included?

**Storekeeper's Liability Policy.**—This policy was designed to meet the needs of many retail stores. The policy is a comprehensive policy covering numerous liability hazards similar to the comprehensive general liability policy. Instead of purchasing an individual liability policy for each separate hazard, the storekeeper's liability policy will cover the various hazards under one contract. This policy contains many provisions similar to the comprehensive general liability policy. However, the premium for the policy is computed in accordance with the methods of computation used for the owners', landlords', and tenants' liability policy. The policy provides a basic limit of \$10,000 for each accident covering bodily injury and property damage. This limit is the company's maximum liability, regardless of the number of persons who sustain injury and regardless of the extent of the property damage. Incidentally this single limit will be discussed again under the comprehensive personal liability policy.

There is a provision for medical payment coverage. The basic limit is \$250 and applies to each person, subject to a total limit of \$10,000 for medical expenses incurred by two or more persons. The basic policy limits can be increased for an additional premium. Medical payment coverage does not apply to accidents arising out of any product sold, handled, or distributed by the insured.

Special provisions of this policy are as follows: (1) Definition of premises means (a) the premises insured under the policy; (b) incidental premises if used in connection with the insured's premises as (i) private garages for storage of the insured's own cars that are used in connection with the business, (ii) parking areas where no charge is made by the insured, (iii) booths or exhibits in connection with any fair or exposition, (iv) premises not owned by the insured which are temporarily being used for meeting place or employee recreation, (v) private mercantile warehouses used exclusively for storing merchandise of the insured.

The term "location" means premises involving the same or connecting lots or premises whose connection is interrupted only by the width of a single street, roadway, waterway, or right-of-way of a railroad.

Some exclusions applying to this policy are :

1. There is no liability except with respect to structural alterations and new construction performed by independent contractors, draft or saddle animals, animal drawn or power driven vehicles, or vehicles for use therewith, or any vehicle rented to others by the insured, or watercraft, while away from the premises, or aircraft, or the loading or unloading of any of the foregoing.
2. There is no liability for accidents due to the operation of elevators at the premises unless the insured owns, rents, or controls only a part of the building and does not operate, maintain, or control the elevator.
3. There is no liability for accident due to demolition of any building or the products hazard with respect to gas for heat or power, appliances operated by gas or liquid fuel, or the installation, servicing, or repair of appliances so operated.
4. For medical payment coverage there is no liability for bodily injury to, or sickness, disease, or death of (a) the named insured or any partner or any employee while engaged in insured's employment, or (b) any tenant of the premises or any employee of such tenant while engaged in the employment of the tenant on that part of the premises rented to the tenant, (c) any person while engaged in the maintenance, alteration, demolition, or new construction operations for the named insured or for any lessee of the named insured or any lessor of the premises, or (d) any person practicing, instructing, or participating in any physical training, sport, athletic activity, or contest.

**Comprehensive Personal Liability Policy.**—The owner of a home, or the lessee or tenant of a private home, may also suffer loss on account of injury to persons or damage to property of others. If he desires, a person may purchase (1) a policy limited to accidents occurring at or about his premises; (2) a policy covering him for accidents occurring while engaged in sports; (3) a policy covering him for accidents to employees not protected by a compensation law. Broad coverage against all liability hazards can be obtained through the use of a single policy, the comprehensive personal liability policy. The following are declarations that must be made by the applicant for the personal comprehensive liability policy :

1. The address of the principal residence of the insured.
2. Whether the principal address is the only premises where the insured or spouse maintains a residence, other than business property and farms.
3. What business pursuits, if any, are conducted at the premises.
4. Whether there are any elevators, inclimators, or escalators at the premises.

5. The number of full-time residence employees, wherever located, employed as follows: (a) By the named insured or spouse and (b) by all other insureds who are residents of the named insured's household.
6. Whether, during the past year, any insurer has cancelled any similar insurance issued to the named insured.

The comprehensive liability policy will pay for all accidents, whether bodily injury or property damage, which the insured becomes obligated to pay by reason of the liability imposed upon him by law or the liability of others assumed by him under written contract relating to his premises for damages because of bodily injury, sickness, or disease, including death of any kind resulting, sustained by any person, and for damages because of injury to or destruction of property, including the loss of use of the property. Note that the coverage is not limited to loss caused by accident. The coverage is very broad, as the company is liable for any occurrence resulting in injury to persons or damage to property.

In addition to liability for injuries to persons and damage to property of others, the policy also provides medical payment coverage. The insured may be entertaining some people at his home or away from his home, and one or more of these people may be injured, though not due to any negligence of the insured. The insured would not, therefore, be legally responsible for the accident. However, he may desire to reimburse the injured persons for medical costs. Under the comprehensive policy, the company agrees to make medical payments for each person who sustains bodily injury, sickness, or disease caused by accident, under the following stipulations:

1. While on the premises with the permission of the insured.
2. While elsewhere if the injury, sickness, or disease
  - (a) Arises out of the premises or a condition in the ways immediately adjoining the premises;
  - (b) Is caused by the activities of the insured;
  - (c) Is caused by the activities of, or is sustained by a residence employee, while engaged in the employment of an insured;
  - (d) Is caused by an animal owned by or in the care of an insured.

The company agrees to pay the reasonable expenses of necessary medical, surgical, ambulance, hospital, professional, and funeral services, all incurred within one year from the date of the accident.

An analysis of the policy indicates two important principles:

1. Liability for injury to persons and damage to property of others is combined in one limit. If the limit stated is \$10,000, and if an accident should occur, injuring persons and damaging property of others, and \$4,000 were recovered for injury to persons, and \$3,500

for damage to property, the company would be liable for \$7,500. Under most policies previously discussed, the insured can protect himself for loss due to injuries to persons for specified limits and, if he desires, for damage to property of others for specified limits.

2. Medical payment. Under this coverage, payment would be made to each person subject to the limit of insurance purchased on behalf of each person.

Similar to other liability policies, there are provisions referring to defense, settlement, supplementary payments, notice of occurrence, notice of claim or suit, assistance and cooperation of the insured, action against company, subrogation, assignment, and cancellation. These provisions also, wherever applicable, apply to the medical payment coverage.

**EXCLUSIONS.**—Under the comprehensive personal liability policy there is no liability for loss due to any of the following:

1. To any business pursuit of an insured other than activities which are ordinarily incident to nonbusiness pursuits.
2. To the rendering of any professional service or the omission of such service.
3. To any act or omission in connection with premises other than the term "premises" as defined by the policy which are owned, rented, or controlled by an insured.
4. To the ownership, maintenance, or use, including loading and unloading, of any of the following:
  - (a) Any automobiles while away from the premises or the ways immediately adjoining the premises, except the liability of the insured with respect to operations by independent contractors for nonbusiness purposes of an insured.
  - (b) Watercraft with more than ten horsepower or exceeding twenty-five feet in over-all length, owned or rented to the insured while away from the premises.
  - (c) Aircraft.
5. To injury, sickness, disease, death, or destruction caused intentionally by or at the direction of the insured.
6. To bodily injury or sickness, disease or death of any of the following:
  - (a) Any employee of the insured while engaged in the employment of the insured if benefits are payable or required to be provided under any workmen's compensation law.
  - (b) Any residence employee of the insured while engaged in the employment of the insured if the insured has in effect on the date of the occurrence a policy providing workmen's compensation benefits for the residence employee.
7. Injury to or destruction of property used by, or rented to, or in the care, custody, or control of the insured.

8. Under medical payment coverage, bodily injury to, sickness, disease, or death to any of the following:
  - (a) Any person while engaged in the insured's employment if benefits are payable under any workmen's compensation law.
  - (b) Any person who is included in the term "insured."
  - (c) Any person other than a residence employee, if the person regularly resides on the premises, or is on the premises because of a business conducted on the premises, or is injured by an accident arising out of the business.
9. Liability assumed by the insured under any contract or agreement except liability of others assumed under a written contract relating to the premises.

If the insured carries workmen's compensation benefits for residence employees, the comprehensive personal liability policy must be endorsed to provide that the liability coverage and medical coverage are afforded only when within 30 days after the termination of the compensation insurance the insured gives the company written notice of the termination and pays an additional premium if required. However, if the insured has no full-time residence employees at the time of the termination of the compensation insurance, the notice and additional premium are not required. The coverage will apply only with respect to employees who are not subject to a workmen's compensation law. Special provisions applicable to the personal comprehensive policy are as follows:

1. The term "insured" includes the following:
  - (a) The named insured.
  - (b) His spouse, the relatives of either, and any other person under the age of 21, in the care of the insured, if a resident of the named insured's household.
  - (c) With respect to animals and watercraft owned by an insured, any person or organization legally responsible for the property.
  - (d) With respect to farm tractors and trailers and self-propelled or motor- or animal-drawn farm implements, any employee of an insured.
2. The term "premises" means the following:
  - (a) All premises where the insured or his spouse maintains a residence, including private approaches to the premises and other premises and private approach to the premises for use in connection with the residence, except business property and farms.
  - (b) Individual or family cemetery plots or burial vaults.
  - (c) Premises in which an insured is temporarily residing if not owned by the insured.
  - (d) Vacant land, other than farm land, owned by or rented to an insured, including land on which a one- or two-family dwelling

is being constructed for the insured by an independent contractor.

3. The term "business property" includes the following:
  - (a) Property on which a business is conducted.
  - (b) Property rented in whole or in part to others, or held for such rental by the insured, other than these:
    - (1) The insured's residence if rented occasionally or if a two-family dwelling usually occupied in part by the insured personally.
    - (2) Garages or stables if not more than three-car spaces or stalls are so rented or held.

The accommodation of not more than two roomers or boarders in the residence of the insured will not be considered renting or business use.

4. The term "business" includes trade, profession, or occupation.
5. "Residence employee" means an employee of an insured whose duties are incidental to the ownership, maintenance, or use of the premises, including the maintenance or use of automobiles or teams, or who performs elsewhere duties of a similar nature which are not in connection with an insured's business.

A number of optional coverages are available to the insured. Some of these are:

1. Coverage for the personal liability of residents of the named insured's household not included in the definition of "insured" under the basic policy.
2. Coverage for secondary and summer residences.
3. Coverage for certain business or professional pursuits conducted from the insured's home.
4. Coverage for watercraft of the types which are normally excluded from coverage.
5. Liability to and caused by more than two full-time residence employees.
6. Coverage for liability of the insured due to damage to, destruction of, or loss of use of the premises or house furnishings used by, rented to, or in the care, custody, or control of the insured if such damage or destruction arises out of (a) fire, (b) explosion, or (c) smoke or smudge caused by sudden, unusual, and faulty operation of any heating or cooking unit.

These coverages may be added by endorsement to the policy for an additional charge. If desired, the comprehensive personal liability policy may be written as an endorsement to the insured's automobile liability

policy, thus giving him complete liability coverage in one insurance contract.

Special requirements for medical payment coverage provide for the following:

1. The injured person, or someone on his behalf, as soon as practicable after each request from the company must furnish information pertaining to the accident and injury and execute authorization to enable the company to obtain medical reports and copies of record. The injured must submit to physical examination by physicians selected by the company when and as often as the company may reasonably require.
2. As soon as practicable, at the completion of the services or after the rendering of service which in cost equals or exceeds the limit of liability for medical payments the injured person or someone on his behalf must give the company written proof of claim under oath, stating the following:
  - (a) The name and address of each person and organization which has rendered services.
  - (b) The nature and extent and dates of rendering the service to the injured.
  - (c) The itemized charges for the services and the amounts paid. Upon the company's request, the injured person, or someone on his behalf, must require each person and organization to give the company written proof of claim under oath, stating the nature and extent and dates of rendition of the service, the itemized charges, and the payment received for the services.
3. The company has the right to make payments at any time to the injured person, or to any person or organization, on account of the services rendered. Payments made will reduce the amount payable to any injured person on account of the injury. Any payment under the medical payment coverage does not constitute admission of liability of the insured, except for the purposes of medical payment of the company.

**Farmer's Comprehensive Personal Liability Policy.**—This coverage is available for most farms. Basically, the policy resembles the comprehensive personal liability policy and is therefore a broad liability coverage. In addition, there is coverage for the business of farming, including the operation of roadside stands for the display and sale of the insured's farm products.

The following are important provisions and underwriting rules of the farmer's comprehensive liability policy:

1. "Farm" means premises on which the insured maintains a residence or set of buildings used for commercial agricultural activities, includ-

ing the production of crops or the raising of livestock. Included in the term "farm" are such enterprises as apiaries, fish hatcheries, frog farms, fur farms, cranberry bogs, and mushroom cellars.

2. Coverage is not available to farms where the principal purpose of the farm is to supply commodities for manufacturing or processing by the insured for sale to others, such as creameries, dairies (not dairy farms), farms operating freezing or dehydrating plants, and poultry factories. Farms where the principal business is raising and using horses for racing purposes are also eligible for this policy. The term "processing" does not apply to the slaughtering and dressing of livestock or to such operations as bunching of vegetables or crating of berries.
3. A basic limit of \$10,000 applies to all damages arising out of one occurrence. A basic limit of \$250 applies for all medical expenses incurred by or on behalf of each person involved in an accident. As in other lines of liability insurance, these limits can be increased on the payment of an additional premium.

The following are some additional coverages which are available under the farmer's comprehensive personal liability policy.

1. Payment for loss by death of any cattle, horse or hybrid thereof, hog, sheep, or goat owned by an insured, caused by collision between the animal and a motor vehicle not owned or operated by the insured or any of his employees, while the animal is on a public highway and is not being transported. The limit of the company's liability is the actual cash value of the animal at the time of loss, but not in excess of \$200 per animal. Insurance of cattle was also discussed in Chapter 10, livestock insurance, and Chapter 17, inland marine insurance.
2. Employers' liability including \$250 or \$500 medical payments for farm employees.
3. Liability for custom farming, that is, the use of farm tractors, trailers, implements, draft animals, or vehicles for use therewith while used under contract to others for a charge.
4. Farmers may rent a portion of their land and farm premises to others, and desire coverage.

**Professional Liability Policies.**—Variations of the liability coverage are available to physicians, surgeons, dentists, druggists, hospitals, optometrists and operators of beauty parlors. The individual receiving treatment may be injured and sue for damages. There are some casualty companies which specialize in this field of liability insurance.

Analysis of the following professional liability policies will serve to illustrate this coverage:

1. Physicians', surgeons', and dentists' liability policy.
2. Hospital liability policy.
3. Druggists' special liability policy.
4. Beauty shop malpractice liability policy.

**Physicians', Surgeons', and Dentists' Liability Policy.**—This policy is frequently issued to physicians, surgeons, and dentists, or to groups of physicians, surgeons, and dentists. Reference will be made to a group policy.

Under the group policy, a certificate is issued to each member. The doctor or dentist must sign an application. For example, in the case of a dentist, he must give information concerning the following:

1. Whether the dentist is duly registered and licensed to practice under the laws of the particular state in which he practices.
2. Date of graduation from a professional school.
3. The name of the professional society of which he is a member.
4. (a) Whether any previous claim has been brought against the applicant on account of malpractice, error, or mistake, with the details of the claim, if any, and the disposition of it; (b) whether he is employed on a salary or commission basis and, if so employed, the percentage of time and income derived; (c) whether he has made a contract guaranteeing the results of his treatments.
5. (a) Whether he follows any specialty such as X ray or radium for therapeutic treatments; (b) whether he is connected with any privately owned clinic; or (c) whether he operates a hospital or sanitarium.
6. Number of regularly employed professional assistants and their duties.
7. Whether any similar insurance has been canceled in the previous three years, and details of such cancellation.

**COVERAGE.**—The policy covers suits against the insured including partner, physician, dentist, anesthetist, hygienist, technician, nurse, due to any of the following:

1. Malpractice, error, negligence, or mistake.
2. Autopsies, inquests, or personal restraints.
3. Dispensing of drugs or medicines.
4. Breach of contract.
5. Counterclaim in suits brought by an insured for the collection of fees, provided such damages are claimed under the above items.
6. Professional services rendered or which should have been rendered.

**LIABILITY LIMITS.**—The company's total liability for bodily injuries and deaths occurring during the policy period is subject to a standard

limit of \$15,000. With respect to any one person, the standard limit is \$5,000. Higher limits are available. Expenses incurred in defending suits are paid by the company, regardless of liability limits.

**EXCLUSIONS.**—Claims arising under the following circumstances are not covered by the group physicians', surgeons', and dentists' liability policy: (1) caused by the insured when under the influence of intoxicants or drugs; or (2) caused by the insured if guilty of a criminal act.

Although there is no liability, the company must assume the cost of defending the suit.

In view of the fact that the standing of the physician or dentist may be affected if any claim is settled, the policy provides that no claims covered by the policy can be settled or compromised by the company except with the written consent of a majority of a committee of members appointed by the group of physicians or dentists. The facts of the case must be presented to the committee, and the decision of the majority of the committee refusing the consent will be binding upon both the insured and the company. Subject to the decision of the majority of the committee, the company must defend any claim or suit until all legal remedies have been exhausted.

Since the policy is generally issued only to members of a specified professional society, the policy provides that cancellation will take effect immediately on termination of the membership of the insured in the society.

**Hospital Liability Policy.**—This policy, which is a malpractice policy, provides coverage against all claims for damages (including counter-claims in suits brought by the insured to collect fees or other charges) for which the insured is legally liable for the following reasons:

1. Arising from injuries sustained by any person while receiving professional treatment in the hospital of the insured, its out-patient department, or in any ambulance maintained by the hospital, on account of malpractice, negligence, any omission, mistake, or the dispensing of drugs or medicines.
2. Arising from any autopsy, inquest, or personal restraint occurring in any of the above places, committed or performed by the insured or any employee of the insured during the policy period.

Under the policy the company will not be liable for damages caused by (a) any person giving treatment while under the influence of intoxicants or drugs, or (b) while engaged in or in consequence of the performance of an unlawful act, or (c) caused by negligence in the operation or maintenance of any ambulance.

The policy is subject to a total liability for damages for each injured patient. Subject to the same limit for each injured patient, there is a

total liability during the policy year. The policy contains clauses similar to those of other liability policies.

The issuance of the policy depends upon the answers to the following declarations :

1. Full name of the hospital or of other insured.
2. Address.
3. Whether the hospital is an individual, copartnership, corporation, or estate.
4. Whether the hospital is maintained in whole or in part by public or private funds or endowment.
5. Whether the hospital is operated for profit. If not, the percentage of full charity patients.
6. Whether the hospital is approved by the American College of Surgeons, and the date of approval.
7. Whether there are any claims or suits for alleged malpractice, pending or closed, against the insured, and, if so, details.
8. Whether any company canceled or declined to issue hospital liability insurance.
9. Which of the following classes of patients are treated: general, medical, surgical, tubercular, communicable, insane, drug addicts, alcoholics, any special.
10. Names of staff (not employees of hospital) and their specialties.
11. Whether clinics are maintained. If so, the kind, and whether they are free, part-pay or full pay; average number of clinic physicians and interns, nurses, and average number of yearly patients.
12. How many persons are employed by the hospital in each of the following classifications: physicians, surgeons, dentists and licensed interns, unlicensed interns, X-ray technicians, laboratory technicians, pharmacists, graduate nurses, day and also night, undergraduate or student nurses, day and also night, practical nurses, day and also night, and whether there is a nurses' training school.
13. How many full-pay and part-pay beds maintained, charity beds, and bassinets for new-born babies.
14. Last year's average bed occupancy and bassinette occupancy.
15. Whether the hospital uses X ray for diagnosis or for treatment.
16. Name of the physician in charge of X ray.
17. Whether the hospital owns or rents radium, and, if so, by whom are radium treatments given.

**Druggists' Special Liability Policy.**—A druggist may be held liable due to malpractice, error, or mistake arising out of the filling of any prescription or the sale of drugs or medicine. Protection against malpractice liability can be covered by product liability insurance.

**Beauty Shop Malpractice Liability Policy.**—The owner of a beauty shop may be held liable due to the rendering of improper service to cus-

tomers. Protection against liability, due to such improper service, is available through the beauty shop malpractice liability policy. Protection against the following hazards is afforded by the policy :

1. Permanent hair waving by any cold process, heating, or steaming methods (whether heat or steam is generated by electricity, gas, or the use of machineless chemical heat pads or sachets), hair cutting, styling, trimming, singeing, conditioning, dressing, shampooing, shampoo-tinting, bleaching, dyeing or coloring by liquid dyes, henna treatments, or hair crayons.
2. Eyelash and eyebrow tinting or coloring when special products are used.
3. Eyebrow arching, tweezing, and plucking.
4. The removal of unwanted hair by shaving or the use of wax or a depilatory preparation.
5. Hair and scalp treatments.
6. Face and neck massaging.
7. Manicuring and pedicuring.
8. Marcel, finger, and water waving.
9. Additional services of a hairdresser or beautician other than services which must be separately covered.

If the insured should desire, the following additional hazards can be covered :

1. Chiropody.
2. Reducing services, that is, the rendering of personal services or the application of any preparation or appliance in connection with exercising, slenderizing, or reducing services, electrical or steam baths, and body massaging.
3. Removal of hair by electrolysis.
4. Product liability, that is, the use or handling away from the premises of any article or product sold or distributed by the insured other than in connection with services performed by the insured or his employees away from the premises.
5. Premises : the use, care, and maintenance of premises other than for personal or professional services.

By the terms of the policy, the company agrees to the following : To pay, on behalf of the insured, all sums which the insured becomes obligated to pay by reason of the liability imposed upon him by law for damages, including damages for care and loss of services, because of bodily injury, sickness, or disease, including death at any time resulting therefrom, suffered by any person or persons, other than employees of the insured, while engaged in the business of the insured, by reason of or resulting from any personal or professional service or the use of any preparation or appliance in connection with the hazards covered, at the

insured's location and elsewhere when such services are in connection with or incidental to the business carried on at the premises.

Under the policy there is no liability for loss caused by any of the following :

1. Caused by the rendering of any treatment or the use of any preparation, which treatment or preparation, to the knowledge of the insured, is prohibited under any Federal, state, or municipal law.
2. Caused by any person employed in violation of law as to age, or under the age of 16 years, if there is no legal age limit.
3. Resulting from face lifting, plastic surgery, the removal or attempted removal of warts, moles, or other growths.
4. Caused by any apparatus using X rays or other electrical rays for the removal of unwanted hair.
5. Any operator of a permanent waving machine who has not had at least two months' actual experience under the supervision of a trained operator.
6. The combustion, burning, or explosion of combs of an inflammable nature other than hard rubber combs.
7. Caused by or due to the use of any inflammable dry shampoo.
8. To any person or persons, liability for whom is assumed by the insured under any contract or agreement, oral or written.
9. To any person, the obligation for whom the insured or any company as his insurer may be held liable under any workmen's compensation law.

The policy can be written with the premium based upon pay roll or at a flat premium. In addition, the policy is available with a deductible clause applicable to each claim. If the policy is based upon pay roll, the earned premium is determined on the entire remuneration, excluding tips, subject usually to a minimum of \$15 per week per employee. The remuneration of owners or executives who are actively engaged in the operations or conduct of the beauty shops in any capacity must be included, usually at a fixed amount of \$2,000 per annum.

If the policy is written subject to a deductible clause, the company may pay any part or all of the deductible amount to effect settlement of any claim or suit. Upon notification of the action taken, the insured must reimburse the company for the part of the deductible amount paid by the company.

The policy contains general clauses following the liability policies discussed in this chapter referring to assault and battery, limits of liability, notice of accident or occurrence, notice of claim or suit, assistance and cooperation of the insured, subrogation, other insurance, changes, assignment, cancellations, and action against the company.

In addition to the professional liability policies already discussed, an analysis will be made of the following liability policies which may be said to be a special form of professional liability coverage.

1. Advertisers' liability policy.
2. Accountants' liability policy.
3. Lawyers' liability policy.

**Advertisers' Liability Policy.**—A business firm which uses advertising media may be sued for libel or infringement of property contract rights or for the violation of the rights of privacy or copyright. Protection against these hazards may be obtained through the advertisers' liability policy. The policy is generally purchased by an advertising agency for protection of the agency and its clients. The policy provides that the company will indemnify the insured against loss from the liability imposed by law due to any neglect, omission, or error, committed or alleged to have been committed, in the conduct of the insured's business of advertising agents by the insured or any officer, partner, employee, photographer, artist, lecturer, entertainer, agent, or other person employed by the insured.

The following information is required from the applicant for insurance:

1. Principal address of the insured.
2. Address of all branch offices of the insured.
3. Estimated number of advertising accounts for whom the insured acts as agent.

Under the policy there is no liability for any of the following:

1. The failure of performance of any contract.
2. Claims of clients of the insured against the insured.
3. Bodily injuries, death, or physical property damage.
4. Incorrect description of any article or commodity.
5. Mistake in advertised products.
6. Liability of others assumed by the insured under contract.

**LIMIT OF LIABILITY.**—The company's liability, whether for one insured or more than one insured, is limited to a stipulated amount for any advertisement, publicity article, or radio broadcast, or any combination involving the same injurious material or act. This limit is used regardless of the number and times the media are used or the frequency of repetition of the material, whether a claim is made by one or more persons.

The premium charge depends upon the number of accounts of the advertising agency. The company reserves the right to examine the records of the insured at any time during the policy period, or any exten-

sion of policy period, at any time within two years after final termination, to determine the actual premium earned.

The policy contains provisions similar to other liability policies referring to service, expense, insolvency, definition of insured, notices, cooperation of insured, subrogation, other insurance, action against company, and cancellation.

**ENDORSEMENTS.**—The advertisers' liability policy can be endorsed to include the following :

1. Coverage for clients of the advertising agency.
2. Liability assumed by the insured, and thus holding various media, such as broadcasting companies, harmless.

The client's endorsement is subject to the following provisions :

1. Each client covered must be listed in the endorsement.
2. The endorsement does not operate to increase the limits of liability.
3. The insurance afforded by the policy to the clients applies only to the liability of claimants resulting from the advertising activities conducted through the advertising agency which is insured.
4. An additional premium charge is made for each \$100,000 of annual advertising expenditure or appropriation made by each client, subject to a maximum charge for each client.
5. Since the premium is based upon advertising expenditures, the advertising agency must render a statement showing total advertising costs to each insured client.
6. If any change should be made in the policy which would affect the interests of any client covered as an additional insured, or if the policy is surrendered for cancellation by the advertising agency, immediate notice must be given to each additional insured.

The media contractual liability endorsement is subject to the following provisions :

1. The policy covers the liability of the advertising agency assumed in written contract with the broadcasting companies, publishers, or other media of advertising, to hold these media harmless from loss or expense resulting from claims for damages on account of violation or alleged violation of the rights of others arising from the broadcasting of programs for the advertising agency or the publication for the advertising agency of any advertising matter including copy, portraits, pictures, or other material for use in connection with such program or publications furnished to the various advertising agencies.
2. There is no coverage for the negligence of any broadcasting company, publisher, or other media in the handling, use or publication of any advertising matter, or materials furnished by the advertising agency, regardless of the liability assumed by the advertising agency.

3. This endorsement does not increase the limit of liability provided by the policy.

**Accountants' Liability Policy.**—Accountants, in the course of their practice, may be held responsible for financial loss caused to their clients. For example, a bookkeeper of an accountant's client may have misappropriated money which was not discovered by the accountant on examination. The accountant may be held liable for the amount of loss in excess of the amount of bond carried on the bookkeeper by his employer. Other causes for which accountants may be held liable may be described as follows :

1. Misleading facts published or material facts omitted.
2. The balance sheet audit did not discover defalcation of an employee.
3. The client's creditor advanced credit based upon the audit made by the accountant.
4. Mistake made in preparing Federal income tax returns.
5. Reports made which affect the credit standing of the client.

Protection for various claims made against accountants is provided by the accountants' liability policy. Under the policy the company is responsible for the loss caused by the neglect, error, or omission of the insured, or of any officer, partner, or employee of the insured, in the performance of services rendered in his professional capacity as accountant for any person, firm, or corporation by whom the insured was employed.

A claim will be recognized as coming within the provisions of the policy, provided the claim resulted from services rendered prior to the termination of the policy, and provided the company was notified during the period of the policy, or within a stipulated period, for example, 15 days after the termination of the policy.

In view of the fact that the accountant might be harmed if a claim is settled, the company cannot settle the claim against the insured without the consent of the insured. In the event that the insured refuses to consent to the company's making any settlement recommended by the company, based upon any judgment or a bona fide offer of settlement, the insured can nevertheless negotiate or defend independently of the company. In that event the loss and expense accruing, or which is determined after suit through litigation or otherwise, in excess of the amount for which the settlement could have been made and was recommended by the company, will not be recoverable under the policy. The defense by the company of any suit, or the prosecution of any appeal, will not operate as a waiver by the company of any of its defenses against the insured if he should fail to comply with any of the terms or conditions of the policy.

The premium for the policy is based upon the average number of members of the firm and employees engaged in the business at the home office and branch offices of the accounting firm. The terms "partner," "officer," and "employee" include all partners, officers, accountants and assistant accountants, and other employees, including all stenographers, typists, secretaries, and report room staff engaged in the work, either at or away from the insured's offices, but not including messengers, bookkeepers whose sole occupation is that of keeping the insured's accounts, telephone operators, and porters.

The policy is subject to a total limit of liability during the policy period. Any sum paid, and all expenses incurred by the company in settlement of any claim, reduce the amount of the policy as of the date of notice of the claim by the insured to the company. The amount deducted may be restored at the option of the company in consideration of an additional premium computed pro rata upon the sum so deducted from the date of the deduction to the end of the policy period. There is no liability on account of any claim recoverable in whole or in part under any prior insurance. As in other liability policies, the insured must assist in the obtaining of evidence and the aiding at trial, and the company has the rights of subrogation.

**ENDORSEMENTS.**—By endorsement the policy can be written so that the company is liable only after a specified amount is paid by the named insured. In addition, if the insured desires, he can obtain broader coverage than granted by the policy. The policy can be endorsed to cover the insured's legal liability for damages arising from any misstatement or fraud, except if made or committed by the insured or any partner or officer of the accounting firm with the actual intent to deceive or defraud.

**Lawyers' Liability Policy.**—Similar to the policy covering claims against accountants, protection is also available for lawyers. The issuance of the policy will depend upon the following information :

1. (a) Number of lawyers and law clerks employed by the insured.  
(b) Number of all other employees.  
(c) Practicing lawyers associated with the insured.
2. In what state the insured is principally engaged in the practice of law.
3. From what school the insured graduated.
4. Of what bar association the insured is a member in good standing.
5. Whether the insured is aware of any negligence, error, or omission, or of any claim against him for any negligent act, error, or omission arising out of the performance of professional services for others during the past year, except as stated.

Under the policy the company agrees to pay, on behalf of the insured or his estate, all sums which the insured or his estate becomes obligated

to pay by reason of the liability imposed upon him by law for damages arising from any claim made against the insured or his estate and caused by any negligent act, error, or omission of the insured, any partner, associate, or employee of the insured, in performance of professional services for others in the insured's capacity as a lawyer.

**EXCLUSIONS.**—Under the the policy the company is not liable for any of the following :

1. Any dishonest, fraudulent, criminal, or malicious act or omission.
2. Libel, slander, assault, or battery.
3. Ownership, maintenance, use, or repair of any property.
4. Conduct of any business enterprise that is wholly or partly owned, operated or managed by the insured, either individually or as executor, administrator, trustee, receiver, or in any other fiduciary capacity.
5. Bodily injury to, or sickness, disease, or death of any person, or injury to or destruction of any tangible property, including the loss of use of the property.

This policy contains the usual provisions referring to notice of claim, assistance, and cooperation of the insured, action against the company, defense, other insurance, subrogation, assignment, and cancellation. Following the accountant's liability policy, the company cannot make any settlement or compromise any claim or suit without the written consent of the insured. As the premium depends upon the number of additional insured lawyers, law clerks, and other employees, the adjusted premium will be based on audit upon termination of the policy.

### QUESTIONS AND PROBLEMS

1. (a) Define three types of liability covered by insurance.  
(b) *R*'s employees, while constructing a building, permitted a brick to fall, which injured *B*, a passer-by. What is *R*'s liability for the injury?  
(c) State the company's liability in the case just presented if *B*, a vagabond, had entered the building during the course of construction and had been injured.  
(d) What information must an applicant for manufacturers' and contractors' liability insurance furnish to the insurance company?
2. (a) State the company's liability, under the manufacturers' liability with standard limits for bodily injury and property damage, issued to *A Incorporated*, in the following circumstances:
  - (1) *A*'s employee, *G*, was injured while working in *A*'s factory.
  - (2) *G* was engaged to paint one of the machines in *A*'s factory. While passing the machine, *D*, who came to see *A*, slipped and

injured his foot. *D* sued *A* and *F*, the president of *A Incorporated*. *A* sent notice to the company 20 days after the accident.

- (3) While the employees of *A* were taking a case of goods from the sidewalk in front of *A*'s factory, the case fell and injured *E*, *F*, and *G*, bystanders. *E* recovered \$6,000, *F* recovered \$4,000, and *G* recovered \$2,000.
- (4) Suppose the policy was written with limits of 10/20 and standard P.D. limits. In addition, *D*'s goods were damaged. *D* claimed \$1,500 damages.
- (5) *A* sent his employee, *M*, to *D*'s factory to show the latter's employees how to use *A*'s goods sold to *D*. During the course of the demonstration a cutting knife fell from *M*'s hand and injured *H*, who was employed by *D*.
- (6) *I* was injured by *A*'s truck, outside the insured premises.
- (7) *A* was permitted to demonstrate his merchandise in *B*'s store. *A* agreed to be responsible for any accidents occurring in the space occupied by *A*, regardless of *B*'s negligence. *J*, a customer, was injured in the store area occupied by *A*.
- (8) *K* used face powder manufactured by *A*, and claimed that her face was disfigured.
- (9) *L* was a passenger on an elevator in a building in which *A* was a tenant. The elevator fell during its operation, and *L* was injured.
- (10) During the course of minor repair by *B* at *A*'s premises, *M* was injured.
- (11) Due to the negligence of *A*'s employee, the merchandise which *A* had received from *B* on memorandum was damaged. The amount of damage was \$2,500.
- (12) *A*'s employee forgot to close a faucet in *A*'s loft. As a result, water flowed into *B*'s premises, damaging *B*'s merchandise and causing a \$2,000 loss. Subsequently, *A* caused various other property damage losses amounting to \$5,500.
- (13) *A*'s employee installed fixtures in *C*'s building. Due to improper installation, water overflowed and damaged *C*'s merchandise.
- (14) *N* was injured while at *A*'s premises. The company offered to settle with *N* for \$1,500. *A* objected to the settlement.
- (15) The president of the *A Company* was requested to attend trial in the suit for personal injuries brought against the *A Company* by *O*. The president demanded payment for the time spent at the trial.
- (16) *P* sued the *A Company*, and after judgment was obtained by *P*, *A* became bankrupt.
- (17) *Q* sued *A* for personal injuries occurring at *A*'s premises. The company refused to defend *A*. *Q* obtained a judgment

against *A* for \$4,000. After paying the judgment, *A* sued the company for the amount of the judgment and \$2,000 for legal and other expenses which were incurred by *A* in order to defend the suit brought by *Q*.

- (b) What are additional property damage exclusions that may be added to the policy in addition to the usual property damage exclusions?
3. (a) An examination of *M*'s books indicated the following payments: bonuses to various employees, \$10,000; drivers, \$20,000; drivers' helpers, \$5,000; cost of hired automobiles, \$15,000. What amounts, if any, should be included in the pay-roll estimate for the manufacturers' liability policy?
- (b) Explain the meaning of the following terms: single enterprise, standard exceptions, multiple enterprises, classification inclusions, additional interests, classification exclusions, executive officers, individual and partners.
- (c) Compare the rule for multiple enterprises in the manufacturer's liability policy and in the contractors' liability policy.
- (d) An estimate of *M*'s annual premium was \$1,200. What premium would *M* be required to pay if he desired to pay his premium (1) semiannually, (2) quarterly, (3) monthly?
- (e) The *M Manufacturing Company* arranged for the addition of one floor to *M*'s plant, the work to be done by the *B Contracting Company*. As a result of the negligence of *B*'s employees, *C* was injured. Explain the company's liability under the manufacturers' liability policy.
- (f) The *M Contracting Company* had a liability policy with 25/50 limits for bodily injury and 5/10 for property damage. As a result of an accident during the course of construction by *M*, *C* was injured and sued for \$15,000. In addition, *M* damaged property belonging to *D* to the extent of \$4,000. Subsequently, at another job as a result of an accident, *E* was injured and sued for \$20,000. Property belonging to *E* was damaged to the extent of \$6,000. What is the company's liability?
- (g) The *D Manufacturing Company* had a policy with 1/10 property damage limits. The policy was written for three years from August 10, 1950. During the course of the policy, the following accidents occurred, damaging property at different jobs: September 4, 1950—\$8,000; April 10, 1951—\$6,000. What is the company's liability?
- (h) The *E Manufacturing Company* had a manufacturers' and contractors' liability policy. The corporation was completely owned by *D*. *D* requested that his name should be added to the policy without premium charge. Explain *D*'s rights.
- (i) Enumerate three additional interests that can be added to the manufacturers' and contractors' liability policy (1) without a premium charge, (2) with a premium charge.

- (j) State three additional interests that cannot be added to the manufacturers' and contractors' liability policy.
4. (a) Discuss the company's liability for the following:
- (1) *J*, who was a manufacturer of ice cream, had a product liability policy subject to a limit of \$5,000/\$10,000/\$25,000. *B* ate some ice cream at *J*'s premises and became ill.
  - (2) Assume in the case just presented that the ice cream from one can was purchased by *C*, *D*, *E*, *F*, *G*, and *H*, and consumed at their respective homes. They all became ill and sued *J*. Analyze the company's liability if each recovered \$5,000.
  - (3) As a result of the consumption of ice cream at various times during the policy term, *J* became liable for the following claims: \$4,000, \$6,000, \$2,000, \$5,000, \$7,000, and \$5,000.
- (b) What basis is used for determining premium charges for product liability insurance?
- (c) *X* was a manufacturer of cosmetics. His product liability policy was endorsed to cover the various concerns to which he sold his products. Discuss the company's liability for the following:
- (1) *B*, a vendor, handled the cosmetics improperly, and as a result, when *C* used the cosmetics, her face was burned.
  - (2) *D*, a retail customer, claimed she was injured by the use of *X*'s cosmetics. She sued the vendor, *X*, the manufacturer, and *E*, who furnished the chemical used by *X* in the manufacture of the cosmetics.
- (d) What information must be given by an applicant for product liability insurance to determine the premium?
- (e) Compare the rules for limits of product liability insurance for bodily injury and property damage with manufacturers' and contractors' liability.
5. (a) Discuss the purpose of the owners' protective policy.
- (b) *A* hired *B* to construct a building. *A* purchased an owners' protective policy. During the construction of the building, *A* directed *B*'s employees in the course of plastering work. In the course of this work, *C* was injured. Discuss the company's liability.
- (c) What factors determine the premium charge for the owners' and contractors' protective policies?
- (d) Give five illustrations of interests that should purchase protective liability insurance.
- (e) An architect prepared plans for the construction of a building. The work was done by the *B Building Company*. During the course of construction the building collapsed and injured several persons. The architect carried protective liability insurance. The contractor carried contractors' liability insurance. Investigation disclosed that the plans prepared by *K*, the architect, were faulty. What is the liability of the various insurance companies?

6. (a) What information must be given by an applicant for elevator liability insurance?
- (b) *R* had an elevator liability policy. The company's inspector notified *R* that the elevator was not in proper repair, and that coverage was suspended from October 1. On October 2, *B* was injured, due to the operation of the elevator. Discuss the company's liability.
- (c) During the course of the operation of the elevator, the elevator operator closed the door too quickly. As a result, *B*'s goods, which were in the elevator, were damaged. Explain the company's liability.
- (d) Compare the limits for bodily injury and property damage for elevator insurance with manufacturers' and contractors' liability insurance.
- (e) *Q* had an elevator liability policy with a collision endorsement. Discuss the company's liability in the following cases:
- (1) Because of overloading, the elevator fell and was damaged to the amount of \$1,500.
  - (2) Due to placing inflammable articles on the elevator, fire broke out, causing \$100 damages.
  - (3) Because of a breakdown of the electric motor in the cellar, the elevator fell, causing damage of \$1,000.
- (f) What factors determine the premium charge for elevator liability insurance?
- (g) Under what conditions are reduced rates available for elevator liability insurance?
- (h) *M* was a tenant in a building in which there were nine other tenants. *M* occasionally operated the elevator. *M* obtained a tenants' protective endorsement. *B*, an employee of *M*, carried goods in the elevator. In taking the goods from the elevator, *B* injured *C*. Discuss the company's liability.
- (i) What if, in the above problem, *M* had agreed with the owner of the building to make necessary elevator repairs. While the repairs were being made, *C* was injured in the elevator.
7. (a) What information must be furnished by an applicant for owners', landlords', and tenants' liability insurance?
- (b) *G* purchased an O. L. & T. policy on his building at 50 East 51st Street on January 15. The policy was subject to limits of 10/20 for bodily injury. What is the company's liability for the following:
- (1) On March 10, *G* purchased an additional building at 142 Manson Avenue. On April 15, *B*, who was a salesman for *C*, was injured while in the Manson Avenue building. *B* sued *G*.
  - (2) The janitor of the 51st Street building owned a dog. *C*, who was a tenant in the building, was bitten by the dog.
  - (3) The ground floor of *G*'s building was used for residential purposes. *G* commenced structural alterations and the con-

struction of shelves and counters on the ground floor in order to rent it to retailers. During the course of this work, *D* was injured by *E*, a carpenter employed by *G* in the reconstruction work.

- (4) What if, in the above problem, the changes on the ground floor involved only the addition of shelves and counters?
  - (5) The janitor was cleaning the street in front of the building. A passer-by, *F*, fell over the pail and was injured.
  - (6) The janitor purchased some paints at a store approximately one quarter of a mile from *G*'s building. While returning from the paint store, the janitor dropped a pail of paint, and as a result *N*, a pedestrian, was injured.
- (c) Compare the exclusions of the O. L. & T. policy and the manufacturers' and contractors' policy.
  - (d) When is medical payment coverage available?
  - (e) Describe the basis for determining the premium charge for an owners', landlords', and tenants' liability policy.
  - (f) In addition to area and frontage, what other methods are used for determining the premium for owners', landlords', and tenants' liability insurance?
  - (g) *M* leased his building to *B*, who was in entire charge of the building except for general repairs. *M* obtained a landlords' protective liability endorsement. *B*, the lessee, demanded that *M* should make all necessary repairs or he would have to give up his lease. *M* agreed to do so. During the repair work, *C* was injured in the building. Summarize the company's liability.
  - (h) What if *M* was required to run the elevator and furnish power at the time of *C*'s injury?
8. (a) What is the purpose of a comprehensive general liability policy?
- (b) How is the premium determined for the comprehensive general liability policy?
- (c) *Y* desired to purchase a comprehensive general liability policy. He requested, however, that contractual liability and product liability should be eliminated. In addition, he desired to limit the policy to bodily injury coverage. Discuss the availability of the policy.
- (d) *Y* purchased a comprehensive general liability policy for bodily injury and property damage. What is the company's liability for the following?
- (1) *B*, who came to see *Y* at his premises, was injured while on *Y*'s property.
  - (2) *Y* agreed to maintain machinery sold by *Y* to *C*, and also to be liable for any accidents caused by the machinery. Due to the negligent operation of the machinery by *D*, an employee of *C*, *F* was injured.
  - (3) An employee of *Y* operated an automobile about *Y*'s yard. *G* was injured by the automobile.

- (4) *H*, an employee of *Y*, was injured in *Y*'s factory.
  - (5) *Y* rented a typewriter from *E*. *Y*'s employee was negligent, and the typewriter fell from the desk and was broken.
  - (6) *Y* sold a machine to *H*. Through the faulty manufacturing by *Y*'s employee, the machine broke and damaged property belonging to *H*.
  - (7) While *Y*'s employee was installing a machine at *K*'s factory, the employee broke a water pipe and damaged *K*'s property.
  - (8) *Y*'s employee forgot to close a window. As a result, rain entered *Y*'s premises, then the adjoining property, and damaged *L*'s merchandise.
  - (9) While *Y*'s employee was operating a grader in *Y*'s yard, the employee injured *N*.
  - (10) A customer sued *Y* because *Y*'s manager insulted her and thereafter had her committed to jail.
  - (11) *R*, an employee of the *X Corporation*, was injured, due to the negligence of an employee of *Y*. The entire stock of the *X Corporation* belonged to *Y*.
- (e) *Y*'s policy expired on January 5, 1950. On March 15, 1951, *M*, the auditor of the insurance company, requested permission to examine *Y*'s books. What are *Y*'s rights?
- (f) Compare the limits of liability for bodily injury and property damage of the comprehensive general liability policy with the manufacturers' and contractors' liability policy and product liability policy.
- (g) Explain the meaning of the following terms: additional premium, estimated premium, cost, and sales.
- (h) State ten hazards which would affect the premium charge for the comprehensive general liability policy.
- (i) What is the purpose of the storekeeper's liability policy?
- (j) How is the premium determined for the storekeeper's liability policy?
- (k) *R*, who is a storekeeper, had a storekeeper's liability policy. An accident occurred injuring one person who recovered \$8,000 and damaged property for which there was liability of \$3,000. What is the company's liability?
- (l) What are the premises covered by the storekeeper's policy?
- (m) *R* had a storekeeper's liability policy with basic limits. What is the company's liability for the following:
- (1) *E* purchased a television set from *R*. Shortly afterward, the picture tube exploded while *E* and his family were watching a show. The explosion damaged the television set, the table on which it stood, and caused personal injury to *E*. *E* sued *R* for his loss. *R* had not given *E* any guarantee for the operation of

the set, nor did *R* have any service contract with *E* for the maintenance of the set.

- (2) *F*, a customer in *R*'s store, was examining a refrigerator which he planned to purchase. *F* accidentally closed the refrigerator door on his finger. *F* had to pay doctor bills amounting to \$30 because of his injury. The accident was not due to *R*'s negligence.
  - (3) While installing a radio in *G*'s home, *T*, an employee of *R*, upset a table and broke a lamp valued at \$150.
  - (4) During the course of a year, the following judgments were rendered against *R*, due to his negligence: February 1, \$3,000; September 14, \$5,000; and October 30, \$11,000.
  - (5) During a demonstration of a new product in *R*'s store, conducted by *R*'s employees, part of the ceiling collapsed, injuring the spectators. Within several weeks after the accident, 45 persons who were injured at the time sent their medical bills to *R*. Each medical bill exceeded \$250. Several of the injured spectators also sued *R* for damages. *R*'s employees were also injured.
  - (6) *R* provided free parking space for the automobiles of his customers. *H*, a customer, slipped on some oil which was on the ground at the parking space. *H* fractured his leg and sued *R* for \$15,000. *H* also sent *R* his bill for medical expenses amounting to \$400.
  - (7) *R* operated an elevator at his premises for the convenience of his customers. *J*, a customer, was injured because the operator had not brought the car to a proper stop before opening the gate.
  - (8) *R* had a written lease with the owner of the building in which *R* was located. *R*'s lease provides that *R* was responsible for any damage to the premises caused by *R* or his employees. While decorating the premises for a sale, *R* damaged a wall of the store.
9. (a) Describe the various policies that a home owner can purchase instead of the comprehensive personal liability policy.
- (b) What information must be given by an applicant for a comprehensive personal liability policy?
- (c) *R* had a comprehensive personal liability policy with standard limits. Explain the company's liability for the following:
- (1) During a basketball game, *R*'s son, age 18, hit *B* with the ball. *B* paid a medical bill of \$100.
  - (2) During a fishing trip, *R*'s powerboat ran into *C*'s boat and injured *C*.
  - (3) While driving his automobile, *R* injured *D*.
  - (4) *R* hired a horse from *F*'s stable. While *R* rode the animal to the polo grounds, *G* was injured by the horse.

- (5) *R*'s son hired a rowboat. While using the rowboat, *R*'s son injured *C*, who was in another boat.
- (6) *H* was injured while at *R*'s place of business.
- (7) While *R* was walking with his dog, the latter bit *I*.
- (8) While *R* was entertaining his family and guests at his home on January 15, 1950, a ceiling fell. As a result of the accident, the following were injured: *J*, who was *R*'s son; *K*, a guest; and *L*, a servant. The following medical bills were paid as a result of the accident: *R*—\$200, *J*—\$100, *K*—\$80, and *L*—\$40. All bills except *L*'s bill were presented within two months from the date of the accident. However, *L* presented his bill on March 10, 1951.
- (9) *R* borrowed a musical instrument from *M*. *R* dropped the musical instrument. *M* claimed \$60 for repairs.
- (10) *R* rented a house for the summer. While in the house, *N* was injured as a result of the negligence of one of *R*'s domestics.
- (11) *R* conducted his business at his residence. *O*, who was *R*'s customer, came to see him at his residence. While leaving the residence, *O* was injured.
- (12) *R* rented the upper part of his two-family house. *P*, who came to visit the tenant, slipped on the stairs.
- (13) *R* had two garages on his lot which he rented to *B* and *C*. Due to the faulty construction of a garage door, *B* was injured.
- (14) *R* rented a room in his apartment to *B*. While *C* was visiting *B*, *C* fell over a chair and was injured.
- (15) Explain various coverages that can be added to the comprehensive personal liability policy.
- (16) *C*, who operated a farm, purchased a farmer's comprehensive personal liability policy. What is the company's liability for the following:
  - (a) In the course of operation of the farm, *L* was injured and recovered \$8,000.
  - (b) As a result of the negligent operation of an agricultural machine at the farm *N* was injured and his automobile was damaged. A judgment was rendered for \$12,000.
  - (c) In a collision between an automobile and a cow and dog belonging to *A*, both animals were killed.
- (17) Explain which of the following could be covered by the farmers' comprehensive policy: Dairy farms, fur farms, farming and creamery, horse breeding farms.

10. (a) What information must a doctor or dentist furnish when applying for a malpractice policy?
- (b) *N* had a physicians' and dentists' liability policy with standard limits. Analyze the company's liability under the following conditions:
- (1) As a result of malpractice, *N* was sued during the term of the policy by *B*, who recovered \$3,000; by *C*, who recovered \$3,300; by *D*, who recovered \$4,000; and by *E*, who recovered \$7,000.
  - (2) *N* sued *D*, a patient, for \$150 for services. *D* entered a counterclaim for \$5,000, claiming malpractice.
  - (3) *N* engaged another physician, *E*, to take care of his office while *N* was away for a week. *E*, by error, prescribed the wrong drug for *F*, a patient of *N*'s.
  - (4) *G*, a patient, claimed injury due to the negligence of *N*'s nurse.
  - (5) *N*'s patient, *H*, claimed that the operation performed by *N* was done in a negligent manner. The company investigator ascertained that this operation was performed in violation of the law.
  - (6) *I* claimed that *N* had negligently treated him. The company desired to settle the claim for \$1,000. *N* objected to the settlement of the claim, as he declared that he had rendered proper service.
- (c) Compare the coverage and exclusions of the hospital and the doctors' and dentists' malpractice policy.
- (d) What information must be given by a hospital in an application for hospital malpractice insurance?
- (e) Explain how a druggist can obtain malpractice insurance.
- (f) Describe some of the business activities covered by a beauty parlor public liability policy, and some of the additional business activities which can be covered by endorsement.
- (g) *F* had purchased beauty parlor public liability insurance. Analyze the company's liability for the following:
- (1) *B*, an employee of *F*, applied a preparation to *C*'s hair. As a result of this application, *C* lost most of her hair. The insurance company investigator discovered that the preparation used was in violation of a local ordinance.
  - (2) *D*, an employee of *F*, removed a mole from *E*'s face. *E* developed blood poisoning.
  - (3) *G*, an employee of *F*, used a permanent waving machine on *M*'s hair. As a result, *M*'s scalp was burned. *G* had operated the machine for six months.

- (4) While *F*'s employee was using a comb on *H*'s hair, the comb exploded and injured *H*.
- (h) Explain how the premium charge for beauty parlor insurance is determined.
11. (a) What information must be given by an applicant for advertisers' liability insurance?
- (b) The *A Advertising Company* had an advertisers' liability policy. Explain the company's liability for the following:
- (1) *A* used the radio for a client. *B* claimed that material on *A*'s program was prepared by *B*. *A* used the same material for several days.
- (2) *A* advertised a patent medicine. *C* used the medicine and became ill.
- (3) The advertising agency used a song, copyrighted by *D*, on a program for their client, *E*. *D* sued *A*, *E*, and the broadcasting company.
- (4) Describe the principal provision of the client's endorsement that can be added to the advertisers' liability policy.
12. *Q*, an accountant, had an accountants' liability policy effective January 15, 1950, for one year.
- (a) Explain the company's liability for the following:
- (1) Due to *Q*'s error, *B* filed an incorrect financial statement with *B*'s bank. *B* failed and the bank sued *Q*.
- (2) Suppose that, in the above problem, the insurance company received notice of the claim on January 20, 1951.
- (3) *Q* was sued by *C* because of loss due to defalcation by *C*'s bookkeeper. The insurance company offered to settle with *C* for \$2,500. *Q* objected, claiming that the work performed by *Q* was in accordance with proper accounting practice. However, *C* recovered \$4,000 and \$210 for court costs.
- (b) How is the premium determined for the accountants' liability policy?
- (c) Describe endorsements available for the accountants' liability policy.
13. (a) What information must an attorney furnish when applying for a lawyers' protective liability policy?
- (b) *R*, an attorney, purchased a lawyers' protective liability policy. Discuss the company's liability for the following:
- (1) Although *R* knew that *B*'s case was to be tried on December 10 *R* did not advise his client, *B*. The case was therefore dismissed by the court.
- (2) *R* was engaged by *C* to commence suit against *D*. In the preparation of the legal papers, *R* used libelous language.

- (3) *R* was an executor for *C*'s estate. As a result of the negligent handling of the assets, *R* lost \$10,000 belonging to the estate.
- (4) Due to improper legal handling of a real-estate transaction, *F* claimed that he suffered a loss of \$5,000. The company offered *F* \$2,000. However, *R* objected to the settlement. *F* recovered \$5,000 and \$300 court costs.

## CHAPTER 19

### AUTOMOBILE INSURANCE

**Automobile Hazards.**—The development of the automobile has introduced a new series of hazards for which insurance has provided protection. The hazards may be divided into two classes: unlimited exposure and limited exposure. When an individual drives an automobile he runs the chance of injuring a number of persons or of damaging the property of others. To determine in advance the amount of the losses that he might cause is impossible. Protection against the unlimited exposure may be provided by automobile bodily injury liability and property damage liability insurance. On the other hand, his own automobile may be damaged by colliding with another object, or the glass in his automobile may be broken. Again, his automobile may be stolen, burned, or lost while being transported, or it may be damaged through riot, earthquake, or in some other way.

The maximum loss for hazards to his own automobile depends on its value. Protection against damage to the automobile may be provided by automobile comprehensive damage insurance, automobile collision insurance, or insurance for named perils, such as automobile fire and theft insurance.

Anyone injured through the use of an automobile has an action for damages arising out of the operation of the automobile when someone has been at fault. This fault may be a violation of statutory law or of common law principles relating to negligence. Under the common law, anyone using an automobile is negligent if his conduct has fallen below that of a reasonable man in like circumstances. His liability is ascertained by trial by jury or by a judge. If the injured party is guilty of contributory negligence, however, he cannot recover damages unless the conduct of the automobile operator is wanton, wilful, or reckless. In addition, although the injured was negligent, he may recover under the theory of "the last clear chance." Under this theory the plaintiff would recover if the operator of the automobile could have seen and recognized the danger and avoided it, but nevertheless failed to do so. In many states laws have been enacted providing that the owner of the automobile may be liable where the automobile is driven with his consent.

An owner of an automobile may protect himself against possible financial loss under various circumstances by purchasing automobile bodily injury and property damage liability insurance. If he desires, he can also purchase coverage providing medical expense and reasonable funeral expenses for any persons (including himself) who may be injured or killed while in, or upon entering or alighting from, any type of automobile, although the insured cannot be held liable in negligence for the injury. This coverage is in effect accident insurance for a limited group of individuals.

**Automobile Bodily Injury Liability Policy.**—The automobile bodily injury liability policy covers the liability which may be imposed upon the insured by law for bodily injuries, sickness or disease, or death caused by accident. The accident must arise out of the ownership, maintenance, or use of the insured automobile for purposes specified in the policy.

**Automobile Property Damage Liability Insurance.**—Property damage liability insurance is usually written with the bodily injury policy, and it protects against liability for injury or destruction of the property of others, including loss of use. The damage must result from an accident arising out of the ownership, maintenance, or use of the automobiles covered by the policy. In connection with automobiles described as “pleasure and business” or “commercial,” the policy includes liability for accidents caused by loading and unloading of goods.

**MEDICAL PAYMENTS COVERAGE.**—As stated previously, an owner of an insured automobile may desire to pay medical costs for persons injured while riding in his automobile with him, although he was not negligent. This coverage is provided by the medical insurance agreement of the automobile liability policy. By the medical payment coverage, the company agrees to pay all reasonable expenses incurred within one year from the date of the accident for necessary medical, surgical, ambulance, hospital, professional nursing, and funeral expenses for each person who sustains bodily injury or sickness, caused by accident while in or upon, entering, or alighting from automobile if accident arises out of use of automobile by or with permission of named insured.

**TRAILERS.**—At times the owner of an automobile may also have a trailer which he uses in connection with his automobile. The liability policy provides coverage for a trailer with a private passenger automobile, although not described in the policy while used with the automobile. However, the trailer must be designed for use with a private passenger automobile, and must not be a trailer of the type designated as a home, office, store, display, or passenger trailer.

An automobile and a trailer are considered to be one automobile as respects the limits of liability for bodily injury or property damage.

**LIMITS.**—The policy provides bodily injury coverage for a standard limit of \$5,000 for injury to one person in one accident, including damages for care and loss of service, and, subject to the same limit for each person, the standard limit for all persons injured in any one accident is \$10,000. Assume that five people were injured and that each one recovered a \$3,000 judgment, making a total of \$15,000. Maximum liability of the company would be \$10,000, and the insured would have to pay the additional \$5,000. If one person was injured in an accident and recovered a judgment of \$6,000, the insurance company would pay \$5,000 and the insured \$1,000. The limits can be increased on payment of an additional premium. The company is liable for interest due on the judgment until it has deposited in court such part of the judgment as does not exceed the limit of the company's liability stated in the policy.

The property damage liability coverage is written with a limit of \$5,000 for any one accident. The coverage includes loss of use of the other party's property. For example, if a judgment is rendered against the insured for \$6,000 on account of damaging the property of another, he must personally pay \$1,000. Higher limits can be obtained on payment of an additional premium.

**DEDUCTIBLE LIABILITY.**—The named insured may desire to pay the loss on each accident up to a stipulated amount. For this purpose, deductible bodily injury coverage is available. Under this form the insured contributes toward the liability for each accident up to the deductible amount. The deductible amount applies to the loss portion of the claim and not to the expense incurred by the company. The plan is available for fleets of five or more automobiles, and the minimum deductible amount is \$100 for each claim.

Automobile property damage liability insurance is also available with provision for deductible amounts as for example \$25 per accident. The deductible amount applies to the loss portion of the claim and not to the expense incurred by the company. This form is not available, however, for private passenger automobiles unless they are part of a fleet of five or more automobiles or covered under a garage pay roll policy.

**TERRITORIAL COVERAGE.**—In addition to travel in the United States, the insured may travel in Canada and other countries. The policy applies only while the automobile is used within the United States of America, its territories or possessions, and Canada, or is being transported between ports of such countries. By endorsement, other countries can be included.

**DEFINITION OF INSURED—ADDITIONAL INTEREST CLAUSE.**—The policy will protect persons using the automobile with the permission of the named insured. The coverage applies to bodily injury or death sustained by a named insured. Suppose, for example, the named insured gave a friend permission to drive his car and was injured as a result of his friend's negligent driving. If the named insured then sued his friend and recovered a judgment, he could hold the company liable.

Persons and organizations operating automobile repair shops, public garages, sales agencies, service stations, or public parking places, and their agents and employees, are not covered by the additional interest clause with respect to any accidents arising out of their occupation. Furthermore, any employee of an insured is not covered with respect to any action brought against the employee because of accident to another employee of the same insured, injured in the course of employment in an accident arising out of maintenance or use of the insured automobile in the business of the insured.

**AUTOMATIC INSURANCE FOR NEWLY ACQUIRED AUTOMOBILES.**—If the named insured acquires another automobile, the insurance applies to the other automobile as of the time of its delivery to him: (a) if it replaces an automobile insured by the policy and only to the extent the insurance is applicable to the replaced automobile; (b) if it does not replace the automobile described by the policy if the company insures all automobiles owned by the named insured at the time of such delivery, but only to the extent the insurance is applicable to all such previously owned automobiles. The insurance terminates upon the replaced automobile at date of delivery. The insured is required to notify the company within 30 days after delivery.

**USE OF OTHER AUTOMOBILES.**—The named insured may have occasion to use other automobiles. The coverage of the liability policy would also apply with respect to any automobile classified as pleasure or business. The coverage for the use of other automobiles is extended to the following:

1. The named insured.
2. The spouse of the individual, provided the spouse is a resident of the same household.
3. Any other person or organization legally responsible for the use, by the named insured or spouse, of an automobile not owned or hired by such other person or organization.

This insuring agreement does not apply under any of the following circumstances:

1. To any automobile owned by, hired as part of a frequent use of hired automobiles by, or furnished for regular use to the named insured or a member of his household other than a private chauffeur or domestic servant of the named insured or spouse.
2. To any automobile while used in the business or occupation of the named insured or spouse, except a private passenger automobile operated or occupied by the named insured, spouse, chauffeur or servant.
3. To any accident arising out of the operation of an automobile repair shop, public garage, sales agency, service station, or public parking place.
4. For medical payment, unless the injury results from the operation of the other automobile by the named insured or spouse or on behalf of either by the chauffeur or servant, or from the occupancy of the automobile by the named insured or spouse.

TEMPORARY USE OF SUBSTITUTE AUTOMOBILES.—As stated previously, the policy covers occasional use of other automobiles. There is a possibility that the insured may not be able to use his automobile during the policy period for some reason, such as breakdowns. During that time he might regularly use another automobile. Under such circumstances, while the automobile is withdrawn from normal use because of breakdown, repair, servicing, loss, or destruction, the insurance would cover with respect to the substituted automobile. There is no liability for an accident to the owner or to any employee of the owner of the substituted automobile.

EXCLUSIONS.—The automobile liability policy does not apply in any of the following cases :

1. While the automobile is used as a public or livery conveyance, unless such use is specifically declared or described in the policy. Consequently, if the insured should occasionally carry passengers in his automobiles, and if the latter were to pay for gas and other incidentals, the company would be liable, in case of accident, since the automobile is not a public or livery conveyance.
2. To liability assumed by the insured under any contract or agreement.
3. Under coverages for bodily injury liability and property damage liability while the automobile is used for the towing of any trailer owned or hired by the named insured and not covered by insurance in the same company; or while any trailer covered by the policy is used with any automobile owned or hired by the named insured and not covered by like insurance in the company.
4. Under coverage for bodily injury and medical payments to bodily injury or death of an employee of the insured while engaged in the employment of the insured other than as a domestic or in domestic

employment if benefits are payable or required under any workmen's compensation law.

5. Under bodily injury liability to any obligation for which the insured or any company as its insurer may be held liable under any workmen's compensation law, since the law would provide necessary coverage for the injured person.
6. Under property damage liability to injury to or destruction of property owned by, rented to, or in charge of or transported by the insured. Coverage under such circumstances can be obtained by a transportation floater as explained in Chapter 17.

As in the various liability policies, there are provisions concerning defenses, settlement, and supplementary payments. In addition to being liable for the stipulated amount that may be payable in each accident, the company also agrees to do the following :

1. Defend in the name and behalf of the insured any suit against the insured alleging injury, sickness, disease, or destruction and seeking damages on account of an accident, even if the suit is groundless, false, or fraudulent. However, the company has the right to make any investigation, negotiation, and settlement of any claim or suit as the company deems expedient.
2. Pay all premiums on bonds to release attachment of the insured's property for a bond not in excess of the limit of liability of the policy.
3. Pay all premiums on appeal bonds required in any defended suit, but the company has no obligation to pay for or to furnish the bonds.
4. Pay all costs taxed against the insured in any suit.
5. Pay all expenses incurred by the company.
6. Pay all interest accruing after entry of judgment until the company has paid, tendered, or deposited in court that part of the judgment up to the limit of the company's liability.
7. Pay expenses incurred by the insured in the event of bodily injury for such immediate medical and surgical relief to others as is imperative at the time of the accident.
8. Reimburse the insured for all reasonable expenses other than loss of earnings incurred at the company's request.

In addition to the above obligations, if the insured should be required to furnish a bail bond in connection with an automobile accident or traffic violation, the company will pay the cost of the bond, but without obligation to apply for or to furnish the bond. The bail bond will guarantee the insured's appearance in court if his appearance is required by reason of an accident or a traffic law violation occurring during the policy period and arising out of the use of an automobile for which insurance is afforded to the insured under the bodily injury liability coverage of the

policy. The company's liability for the cost of each bail bond that may be required cannot exceed the usual charges made by companies for the bond, and not in excess of \$100. The various obligations assumed in connection with defense settlement, supplementary payment, and bail bonds expense are in addition to the limit of the policy.

**FINANCIAL RESPONSIBILITY CLAUSE.**—An insured may be required to meet the requirements of certain provisions of the state Financial Responsibility Law making him responsible for automobile accidents. (Further reference to this subject will be made subsequently.) Therefore, although the company may not be liable by the policy terms, the policy is subject for bodily injury and property damage liability to the provisions of the Motor Vehicle Financial Responsibility Law of any state or province with respect to any liability arising out of the ownership, maintenance, or use of the automobile to the extent of the coverage and limits of liability required by the law, but not in excess of the limits stated in the policy. If the insurance company is required to pay the claim for which it would have a defense against the insured except for the provisions of the Motor Vehicle Financial Responsibility Law, the insured must reimburse the company for any payment made by the company.

**MISCELLANEOUS PROVISIONS.**—For bodily injury liability, assault and battery will be deemed an accident unless committed by or at the direction of the insured.

When an accident occurs, written notice must be given by, or on behalf of, the insured to the company or any of its authorized agents as soon as practicable. The notice must contain particulars sufficient to identify the insured, and also reasonably obtainable information respecting the time, place, and circumstances of the accident, the names and addresses of the injured and of available witnesses.

If claim is made or suit is brought against the insured for bodily injury liability or property damage liability, the insured must immediately forward to the company every demand, notice, summons, or other process received by him or his representative.

In connection with bodily injury or property damage claims, the insured must cooperate with the company. Upon the company's request he must attend hearings and trials and assist in effecting settlements, securing and giving evidence, obtaining the attendance of witnesses and in the conduct of suits. This requirement of assistance and cooperation does not, however, give the insured the right to make any payments, assume any obligation, or incur any expense except at his own cost. Incidentally, this limitation does not apply to immediate medical or surgical relief to others which is imperative at the time of the accident.

If a claim is made for medical payments, the injured person or someone on his behalf must as soon as practicable, after each request from the company, furnish reasonably obtainable information pertaining to the accident and injury and execute authorization to enable the company to obtain medical reports and copies of records. The injured person must submit to physical examination by physicians selected by the company when and as often as the company may reasonably require. The company has the right to make payment of any medical claim at any time to the injured person or to any person or organization on account of the services rendered. The amount payable to and for any injured person on account of an injury will be reduced to the extent of any payment to that injured person. Incidentally, payment for medical services does not constitute any admission of liability except for medical payments.

No action will lie against the company for a bodily injury or property damage claim unless the insured has fully complied with all the terms of the policy, nor until the amount of the insured's obligation to pay has been finally determined either by judgment against the insured after actual trial or by written agreement of the insured, the claimant, and the company.

Prior to any judgment or written agreement with the injured as to the amount of the loss, no person or organization has the right to join the company as a codefendant in any action against the insured to determine the insured's liability. After the judgment or written agreement, any person or organization, or the legal representative of the person or organization, can sue the company for payment to the extent of the insurance afforded by the policy. Although the company agrees to pay only after the insured is obligated to pay, bankruptcy which would ordinarily relieve the insured from all liability would not relieve the insurance company from its obligation under the policy. The company cannot be sued for any medical claim unless there has been full compliance with all terms of the policy, nor until 30 days after the required proofs of claim have been filed with the company.

There is a possibility that the insured may have other automobile insurance. Under such circumstances, if the insured has other bodily injury and property damage liability insurance against the loss covered by the policy, the loss will be a portion based on the total applicable limit of liability of all valid and collectible insurance against the loss. However, the company's liability for accidents, while the insured is using another automobile, will be the amount over any other valid and collectible insurance available to the insured, either as an insured under a policy applicable with respect to the automobile or otherwise against the loss. In order to illustrate this provision, assume that the insured, who had a policy with 10/20 limits, drove an automobile belonging to a friend

who had a policy with 5/10 limits. During the course of driving the friend's automobile, the insured injured a third party. The claim was settled for \$8,500. The company's liability under the policy of the insured would be \$3,500. The company which carried the friend's policy would pay \$5,000, and the company carrying the insured's policy would pay the balance—that is \$3,500.

Similarly, the medical payment coverage will be excess over any other valid and collectible medical payments insurance applicable to the accident. Therefore if the insured were driving another automobile insured for medical payment coverage, and if a medical payment had to be made, the medical payment coverage of the owner of the second automobile would be applied, subject to the limits of the coverage prior to any payment under the insured's policy.

A claim may be paid by the insurance company, and another party may be responsible for the accident. Under such circumstances the policy provides that, in the event of any payment for bodily injury or property damage, the company must be subrogated to the insured's right of recovery against any person or organization, and the insured must execute and deliver instruments and papers and do whatever else is necessary to secure such rights. The insured must not prejudice the rights of the insurance carrier after the loss.

**ASSIGNMENT.**—During the policy period, the named insured may die or become bankrupt, or he may sell his automobile. Any assignment of interest does not bind the company unless the company consents by endorsement on the policy. If the named insured should die or be adjudged bankrupt or be insolvent, however, the policy will continue to cover the following :

1. The named insured's legal representatives as the named insured.
2. Under bodily injury liability and property damage liability coverage, subject to the limitation of the additional interests clause, any person having temporary custody of the automobile as an insured, and under the medical payment coverage, while the automobile is used by such person, until the appointment and qualification of a legal representative but in no event for a period of more than 60 days after the date of death or adjudication. In connection with the contingency of death or bankruptcy, coverage will be continued only provided notice is given within 60 days after date of death or adjudication.

The following is the principal information required from the applicant for a policy :

1. The name of the insured.
2. The occupation of the insured. If the named insured is a married woman, the occupation of her husband, or his business, must be stated.

3. The description of the automobile, that is, the year, model, trade name, motor number, serial number.
4. The purpose for which the automobile is to be used. If the purpose is defined as pleasure and business, family and business use is permitted. If the term "commercial" is used, the use must be principally in the business occupation of the named insured, including occasional use for other business purposes and personal, pleasure, and family purposes.
5. The address, town, county, and state where the automobile will be principally garaged.
6. Whether the named insured is the sole owner of the automobile, except with respect to bailment lease, conditional sale, mortgage, or other encumbrances.
7. The limits desired for the following:
  - (a) Bodily injuries to one person, and total limit for more than one person in one accident.
  - (b) Liability for property damage in each accident.
  - (c) Amount of medical payment for each person.

**Automobile Comprehensive Liability.**—During the course of the year a businessman may have occasion to hire automobiles for the use of his business. Furthermore, employees may use their own automobiles in connection with the employer's business. Consequently, in order to obtain complete protection against loss due to accidents caused by the operation of automobiles, a businessman under such circumstances should obtain a policy covering for (1) owned automobiles, (2) hired automobiles, (3) automobiles used by employees and operated in connection with the business. These various coverages are provided by the comprehensive automobile liability policy. If the insured desires, for an additional premium the word "occurrence" can be substituted for the word "accident" in the automobile liability policy.

**Automobile Physical Damage.**—As stated previously, the owner of an automobile may suffer loss to his automobile on account of various hazards such as fire, theft, collision, transportation, windstorm, earthquake, explosion, hail, or water. Insurance against such losses can be provided by various coverages. These coverages are as follows:

1. Comprehensive: Loss or damage to the automobile except by collision or upset.
2. Collision or upset.

When the comprehensive coverage, except collision, is not available to the insured, then coverage may be obtained for named perils such as the following:

1. Fire, lightning, and transportation.
2. Theft.

3. Windstorm, earthquake, explosion, hail.
4. Flood or rising waters.
5. Riot and civil commotion.
6. Loss due to the forced landing or falling of any aircraft or parts of equipment of the aircraft.

If coverage is limited to fire, lightning, and transportation, the company will be responsible for direct and accidental loss or damage due to any of the following :

1. Fire.
2. Lightning.
3. Smoke or smudge due to a sudden unusual and faulty operation of any fixed heating equipment serving the premises in which the automobile is located.
4. Stranding, sinking, burning, collision, or derailment of any conveyance in or upon which the automobile is being transported on land or on water.

If coverage applies specifically to the risk of theft, then the company is liable for loss or damage to the automobile caused by theft, larceny, robbery, or pilferage.

Generally, the coverage for pleasure and commercial automobiles is issued on a comprehensive basis, unless the manual rules of the company prohibit the issuance of the coverage. The company may decide, however, on account of past experience, not to issue the policy except for some of the named perils as stated above. If the policy covers comprehensive loss or damage except by collision, the company is liable for any direct and accidental loss or damage to the automobile, except loss caused by collision of the automobile with another object or by upset of the automobile or by collision of the automobile with a vehicle to which it is attached. There are certain accidents which might be deemed to be collisions and are nevertheless included in the comprehensive coverage. Loss caused by breakage of glass or loss caused by missiles, falling objects, fire, theft, explosion, earthquake, windstorm, hail, water, flood, vandalism, riot or civil commotion are not considered to be loss caused by collision or upset and are therefore included in the comprehensive coverage.

There are two forms used to insure automobiles. These are (1) the actual cash value policy and (2) the stated amount policy.

**1. ACTUAL CASH VALUE POLICY.**—The actual cash value form is written without mentioning any specific amount as the value of the automobile. In case of loss, recovery is based upon the actual value of the automobile at the time of loss, with proper deductions for depreciation.

**2. STATED AMOUNT POLICY.**—This form is written with a definite amount stated as the maximum insurance. However, in the event of

loss, the recovery is based upon the actual cash value at the time of loss, with the limitation that the recovery cannot exceed the stated amount of the policy.

In order to illustrate the use of these forms, suppose an automobile was insured on (1) an actual cash value form, or (2) a stated amount policy, for \$600. At the time of loss, the replacement value of the automobile was \$800. Under the actual cash value form the insured would receive \$800, but under the stated amount he would receive \$600, since that is the limit of the policy.

A modification of the stated amount form is the monthly reduction policy. Under the monthly reduction policy the company and the insured agree upon the value in advance. However, there is a reduction in value monthly during the policy period. This monthly reduction is supposed to measure the depreciation of the car. The following monthly percentages are used :

- 1% for the original list price of the automobile over \$5,000.
- 1½% if the original list price of the automobile is under \$5,000 and over \$1,500.
- 2% if the original list price of the automobile is \$1,500 or under.

**Automobile Collision or Upset Insurance.**—Protection against the damage to the owner's automobile resulting from the impact of the owner's car with another object, whether the object is moving or stationary, is provided by collision insurance. This form of insurance is purchased by the owner of the automobile, and the insurance company agrees to repair the car or to pay the cost of the repairs or replacement subject to any policy limitation made necessary as a result of a collision.

**COLLISION DEDUCTIBLE CLAUSE.**—The insurance companies have found automobile collision insurance a difficult line of insurance to handle at times, especially if all losses, however trivial, must be paid. The direct relationship existing between the insurance carrier and insured may produce a delicate situation wherein the interest of the insured is opposed to the interest of the insurance company. This need not exist where a third party is trying to hold the insured responsible for claims which the insurance company must ultimately pay. Furthermore, it is expensive to investigate small claims.

The insurance companies may prefer to issue an automobile collision policy with a clause known as the "deductible clause." When this clause is attached to a policy, the insurance company is not required to pay the full cost of any damage due to a collision. Supposing that, for example, the insurance company has issued a policy with a \$100 deductible clause, and that a collision occurs requiring repairs for \$150. The liability of the insurance company is \$50. The insurance company is not liable

unless the amount is in excess of \$100, and the liability is limited to the amount above \$100. The amount of \$100 is deducted from the amount of damage caused in each and every accident.

**CONVERTIBLE COLLISION.**—A special form of full collision coverage is called “convertible collision.” This form requires the insured to pay a portion of the regular premium at the inception of the policy. If the company pays no losses during the year, the insured is not liable for the remaining portion of the premium. Should he have a loss, the insured must pay the balance of the premium due if he desires to collect. Thus, suppose the full collision premium is \$100, and the insured paid \$63 initially. If he subsequently suffered a loss of \$75, the insured must pay the balance of the premium and the company is liable for the loss. He is then insured for the balance of the year with full collision coverage.

**TOWING COVERAGE.**—During the course of use of the automobile, the vehicle may break down, necessitating the towing of the automobile to a garage or other location. Coverage for towing and labor costs is available for private passenger automobiles, limited to \$10 for each disablement. The company agrees to pay the towing and labor costs, provided the labor is performed at the place of disablement.

**EXCLUSIONS.**—Policies covering damage to the automobile do not apply to the following losses under any of the coverages :

1. While the automobile is used as a public or livery conveyance, unless the use is specifically declared and described in the policy and a premium is charged.
2. While the automobile is subject to any bailment lease, conditional sale, mortgage, or other encumbrance not specifically declared and described in the policy.
3. Any damage to the automobile which is due and confined to any of the following : wear and tear, freezing, mechanical or electrical breakdown, or failure, unless such damage is the result of other loss covered by the policy. Therefore if a fire occurs, and the automobile must be abandoned, and subsequently there is a loss due to the freezing of the engine, the company would be liable.
4. Robes, wearing apparel, or personal effects. (Such coverage can be obtained by special endorsement for fire, lightning, and transportation, or by a personal property floater as explained in Chapter 17.)
5. Tires, unless damaged by fire or stolen, or unless the loss is coincidental with any other loss covered by the policy.

The following exclusions are also found in the policies :

1. Under any of the coverages, while the automobile is used in connection with any illicit trade or transportation.

2. Under the comprehensive or theft coverage for loss due to conversion, embezzlement, or secretion by any person in lawful possession of the automobile under a bailment lease, conditional sale, mortgage, or other encumbrance.
3. Under the collision coverage for the breakage of glass if insurance with respect to breakage is otherwise afforded.

The automobile damage policy contains the following clauses which are similar to those of the automobile liability policy: definition of the term "automobile" (the term "automobile" also includes the equipment and other equipment permanently attached to the automobile), newly acquired cars, other insurance, assistance and cooperation of the insured, subrogation, and assignment.

The automobile damage policy contains the following provisions similar to those of the fire-insurance policy: appraisal, option of the company to pay for or replace the property; other insurance; procedure after loss. In addition, in the event of theft, larceny, robbery, or pilferage, notice must be given to the police. The insured cannot offer or pay any reward for the recovery of the automobile except at his own expense.

**GENERAL AVERAGE AND SALVAGE CHARGES.**—During the course of transportation by water, a loss may occur subjecting the owner to contribution in general average or for salvage. General average and salvage charges were explained in the chapter on "Marine Insurance" (page 390). The transportation coverage includes any general average and salvage charges for which the insured becomes legally liable.

**EXPENSE REIMBURSEMENT.**—In order to reduce the loss, the company may request the insured to make expenditures. Under such circumstances the company will reimburse him for the reasonable expense other than loss of his earnings incurred at the company's request.

**LOSS OF USE BY THEFT.**—If the insured's car should be stolen, the insured might rent another car temporarily. Therefore if the policy provides that the theft peril is covered, the company will reimburse the insured after a theft for expenses incurred for the rental of the substitute automobile, including taxicabs. The liability is limited to \$5 for any one day, and is subject to a limit of \$150, or the actual cash value at the time of theft, whichever is less. The period of reimbursement will commence 72 hours after the theft has been reported to the company and the police. Reimbursement will terminate on the date the whereabouts of the automobile becomes known to the insured or to the company, or on such earlier date as the company makes or tenders settlement for the theft. The reimbursement is available only for private passenger automobiles. The coverage does not apply if the automobile was used as a

public or livery conveyance, or if owned and held for sale by an automobile dealer.

Some insurance companies will issue a loss of use endorsement on private passenger automobiles to cover against loss of use of the car caused by fire, collision, or comprehensive damage, or any combination of the three hazards, in addition to the usual coverage for loss of use because of theft. Coverage under the endorsement attaches (except for theft) twenty-four hours after the loss and may be written to provide for reimbursement of \$5 or \$10 per day for a maximum of thirty days. Loss of use due to fire, collision, or comprehensive damage (other than theft) is defined as "such reasonable time in excess of one day during which the automobile is laid up for repairs." Loss of use caused by theft is defined in the automobile theft policy.

For fleets of over twenty-five vehicles, a rental reimbursement coverage is available which will cover for loss of use of any insured vehicles caused by fire, theft, collision, or comprehensive damage. The amount of coverage per vehicle and the number of days for which reimbursement will be made is determined when the policy is written. No coverage attaches until seventy-two hours after loss.

**AUTOMATIC REINSTATEMENT.**—When the automobile is damaged, the liability of the company will be reduced by the amount of the damage until repairs have been completed. Subsequently the company will be liable for the amount of insurance as originally written, without the payment of any additional premium by the insured.

The loss may be due to the negligence of a bailee, such as an operator of a public garage, or due to a public carrier. Under the policy the insurance must not inure to the benefit of any carrier or bailee liable for the loss of the automobile.

**APPLICATION.**—Information required from the insured for the damage policy is similar to that for the automobile liability policy as to (a) the address of the insured, (b) where the automobile will be principally garaged, (c) occupation of the insured, (d) purpose for which automobile is to be used, (e) lien on the automobile, if any, (f) description of the automobile.

The following information must also be given :

1. If the automobile is subject to a mortgage, the loss can be made payable to the insured or any specified person or company. Therefore the name and address of the mortgagee must be stated.
2. F.O.B. list price or delivered price of the automobile at the factory.
3. Actual cost of the automobile when purchased, including equipment, month and year when purchased.

4. Amount of encumbrance on automobile if any, installment payments, number and amount of each installment payment, and due date and amount of final installment.

**Automatic Coverage—Fleets of Automobiles.**—As stated previously, there is coverage for newly acquired automobiles, provided that notice is given within 30 days. However, where an insured purchases new automobiles and disposes of the old automobiles frequently, automatic damage coverage is available on a reporting basis. The provisions for automatic coverage of newly acquired automobiles are:

The coverage applies only if all automobiles owned by the insured at the inception date of the policy are covered by the policy.

The insurance, except collision or upset, as is afforded by the policy to all owned automobiles will also apply to all automobiles acquired by the insured as owner during the policy period and used for business purposes.

The automatic insurance is in an amount not exceeding the actual cash value of the automobile at time of loss, and attaches in respect of additional automobiles on the dates of delivery to the insured. On automobiles disposed of or sold, the insurance terminates on the dates of the disposition or sale. A maximum limit of liability is placed on any new automobile acquired during the year. This amount, however, can be increased by a notification concerning any specified automobile.

The insured must maintain a record of additions to and deletions from the fleet of automobiles during the policy period, showing as to each automobile the date of acquisition, disposition or sale, and the description as required by the policy.

This record must be submitted to the company at the end of the policy period, and if requested, quarterly during the policy period.

The company, through any authorized representative and at all reasonable times, must be permitted to examine the books, records, and files of the insured for the purpose of determining any fact relating to the insurance.

The insured must pay a premium computed on the amount of liability under the policy at its inception date, and quarterly thereafter the company will compute the amount of premium earned at the end of the period.

**Garage Keeper's Legal Liability.**—Automobile owners may suffer a loss while their automobiles are in the custody of a public garage. If the owner of the car has physical damage insurance, he is protected. However, the insurance carrier may sue the garage keeper under subrogation rights on the grounds of negligence. By purchasing a garage

keeper's legal liability policy, the garage owner protects himself against such a contingency.

If the automobile owner does not carry physical damage insurance, he may sue the garage owner directly on the grounds of negligence. This policy will provide coverage under such circumstances also.

The garage keeper's legal liability policy is not intended as a substitute for automobile physical damage insurance. The company will only pay a claimant when he can prove that the garage keeper is legally liable.

This policy protects the garage keeper against liability for losses resulting from the perils of theft, fire, and explosion, except the explosion of tires. In addition, coverage is also available for the following :

1. Collision subject to a \$50 or \$100 deductible clause.
2. Riot and civil commotion.
3. Vandalism and malicious mischief losses subject to a \$25 deductible clause.

The company will indemnify the insured for liability imposed by law for damage to property of others in the custody of the insured for storage, repairs, or safekeeping: (1) when in the premises specified by the policy; (2) while temporarily removed from the named premises for the purpose of testing in connection with repairs made by the insured; (3) while being called for or delivered under the terms of the contract between the insured and the owner.

The policy also covers legal expenses incurred by the insured with the company in connection with coverage granted by the policy. A maximum limit of liability is designated, however, for each location covered, depending upon the stipulated maximum number of automobiles stored.

**EXCLUSIONS.**—The garage keeper's liability policy does not cover the following perils and losses :

1. Loss of use other than by theft.
2. Loss or damage to robes, personal effects, and merchandise, whether or not the automobile in which they are contained is damaged or stolen.
3. Loss of any automobile owned by the insured, his employees, or members of his family. This exclusion applies to members or partnerships and officers of corporations and their respective families.
4. Liabilities assumed by the insured under oral or written contract or agreement.

**LIMITATION OF LIABILITY.**—The premium is fixed on the understanding that the number of automobiles in the custody of the insured for storage, repairs, or safekeeping in each of the named premises does not exceed the number specified in the policy. If the automobiles of others are in excess of the limit set for a location at the time of loss, the

company is not liable for a greater proportion of the amount for which it otherwise would have been liable than the number of cars specified in the policy bears to the actual number at the location at the time of loss.

**DUTIES OF THE INSURED.**—The insured must maintain a permanent record of every automobile placed in his custody for storage, repairs, or safekeeping. The company has the right, at all reasonable times, to inspect the books and records of the insured.

Upon request of the company, the insured must aid in effecting settlement. He must strive to secure information and the attendance of witnesses.

Without previous written consent of the company, the insured cannot voluntarily assume any liability or interfere in any negotiation or legal proceeding for settlement. If he incurs any expense or settles any claim without permission of the company, he does so at his own expense.

**Garage Liability.**—An automobile dealer, repair shop owner, storage garage operator, service station owner, or machinery and implement dealer may be sued for bodily injury or property damage inflicted on a claimant as a result of (1) an accident occurring on the premises; (2) an accident arising out of the operations of the business; or (3) an accident caused by the use of automobiles. The garage liability policy affords coverage against these contingencies.

The policy provides four basic coverages:

*Coverage A.* Bodily Injury Liability.

*Coverage B.* Property Damage Liability.

*Coverage C.* Automobile Medical Payments.

*Coverage D.* Property of others, in charge of the named insured.

Coverages *A* and *B* are divided into Divisions 1 and 2. Division 1 covers:

- (a) The ownership, maintenance, or use of the premises.
- (b) All operations necessary or incidental to the premises.
- (c) The ownership, maintenance, or use of any automobile in connection with the defined operations and the occasional use for other business purposes, or the use for nonbusiness purposes of (1) an automobile owned by or in charge of the insured and used principally in the defined operations, (2) an automobile owned by the operator of the insured garage in connection with the operations of the business as described above, for the use of the insured, a partner, an executive officer of the insured, if the insured is a corporation, or a member of the household of any such person.

Division 2 covers (a) and (b) as above and the use in connection with the defined operations of any automobile not owned or hired by the insured, a partner, or a member of his household. Automobile dealers must use Division 1.

For all other risks, the insured may choose Division 1 or 2. It will be noted that Division 1 covers automobiles that are owned, not owned, hired, and not hired, while Division 2 applies only to automobiles that are not owned or not hired. Under both divisions there is coverage for product liability and for completed operations.

A garage may contain an elevator or a lubricating hoist. The policy provides coverage for loss from the operation of automobile hoists used for lubricating and servicing cars. However, if the premises contain an elevator that serves as a means of transportation between floors, an additional charge is made; this coverage is to be included in the insurance policy.

Coverage *C* provides medical payments insurance similar to that provided in the standard automobile policy. Coverage is provided for anyone in or upon, entering or alighting from, an automobile included under Coverage *A*. Medical payments coverage for accidents arising elsewhere, on the premises, or in the course of other garage operations may be provided by endorsement.

An automobile which is in the care, custody, or control of the insured may be damaged by collision or upset. As the basic policy excludes such damage, the insured must purchase coverage *D* if he wishes to be protected for his liability to his customers. Coverage *D* is written with a deductible clause of \$50 or \$100 and is limited to the perils of upset and collision only.

The garage liability policy is a much broader form of coverage than the garage keeper's legal liability policy. The garage keeper's legal liability policy is limited to physical damage perils affecting non-owned automobiles. The garage liability policy covers bodily injury, property damage, and medical payments on owned or non-owned automobiles. As stated previously, collision or upset may be endorsed on the garage liability policy.

The garage liability policy protects the named insured and any partner, employee, director, or stockholder while acting within the scope of his duties, and any person or organization having a financial interest in the business. In addition, any person or organization using a vehicle covered by the policy with the permission of the named insured is protected. The coverage is not extended to:

1. Any employee for injury to another employee arising out of employment.
2. Any partner, employee, director, stockholder, or additional insured with respect to automobiles owned by such person or a member of his household, other than the named insured.

3. Any partner or employee with respect to damage to property owned by, rented to, or in charge of the named insured, except as provided for property of others by coverage *D*.

**EXCLUSIONS.**—The policy does not apply :

1. To liability assumed by the insured in any contract or agreement, except a warranty of goods or products.
2. To any automobile while rented to others by the named insured, except to a salesman for use principally in the business of the insured, to any haulaway, tank truck, tank trailer, or tractor owned, hired, or held for sale by the named insured and not being delivered, demonstrated, or tested, or to any watercraft, while away from the premises ; or to any elevator at the premises unless an additional premium is paid.
3. Under coverages *A*, *B*, and *C*, (a) for the use of any automobile as a public or livery conveyance or for carrying property for a charge, or to any aircraft ; or (b) for structural alterations, new construction, or demolition operations by independent contractors or subcontractors or omissions or supervisory acts of the insured in connection therewith.
4. Under coverages *A* and *C*, for bodily injury to, or sickness, disease, or death of any employee of the insured while engaged by the insured.
5. Under coverages *A* and *C*, for any obligation for which the insured may be held liable under any workmen's compensation law.
6. Under coverage *B*, for damage to property owned by or rented to the insured, or, except while on elevators, property in charge of or transported by the insured, or any goods manufactured, sold, handled, or work completed out of which the accident arises.
7. Under coverage *D*, for damage by fire and theft, or damage to property owned by, loaned to, or rented to the insured, or damage to automobiles being taken from the factory or the wholesale distribution point to the purchaser, or for storage.

**DECLARATIONS.**—Important information which must be given by the applicant for insurance is as follows :

1. Name of insured and address.
2. Whether the named insured is an individual, corporation, or co-partnership. If the named insured is a copartnership, the name of each partner must be stated.
3. Location of insured's premises.
4. Operations and estimated total annual remuneration for each class of employees.
5. Limit of liability for bodily injury—each person and each accident, property damage liability—each accident, and medical payment—each accident.

6. Whether during the past year any insurer has canceled or declined any similar insurance.

The general provisions of the policy are similar to the automobile bodily injury and property damage liability policy previously discussed.

**Automobile Dealers' Damage Policy.**—An automobile dealer may suffer loss of or damage to automobiles which he owns or in which he may have an interest, due to fire or theft and other perils. Protection against loss for specified perils is provided by the following automobile dealers' policies :

1. Automobile dealers' open policy—monthly form.
2. Automobile dealers' open policy—blanket form.
3. Automobile dealers' open policy—passbook or certificate form.

**Automobile Dealers' Open Policy.**—This policy provides coverage against the perils of the following :

1. Fire, lightning, and transportation.
2. Theft, larceny, robbery, or pilferage.

Protection is granted for automobiles owned by the insured and held for sale or used in repair service or as demonstrators, including automobiles consigned to the insured for sale, the titles of which are held by others. However, the policy does not cover automobiles sold under a conditional sale, mortgage, lease, or similar agreement. In case of loss of, or damage to, any automobile, the company will not be liable for a greater proportion than the amount of the insured's equity in the automobile bears to the value of the automobile at the time of loss.

Under the policy there is no coverage for any of the following :

1. Automobiles while in any building or premises occupied by the insured as a factory or assembly plant. Incidentally, factory or assembly plant does not mean salesrooms, service stations, or garages.
2. More than four automobiles while waterborne on any single coastwise or lake or river boat, harbor barge, or lighter. However, this provision will not affect automobiles in transit by railroad car while being transported on a car ferry.
3. Under the transportation coverage, loss of or damage to any automobile while the automobile is being conveyed in or upon any automobile, trailer, or semitrailer.
4. Under the theft, larceny, robbery, or pilferage coverage—loss suffered by the insured in case he voluntarily parts with title to or possession of any automobile at risk, whether or not he is induced so to do by any fraudulent scheme, trick, device, or false pretense.
5. Theft, larceny, robbery, or pilferage of any automobile stored or displayed in any open lot or unroofed space or in any building not securely enclosed and locked when unattended. This provision does

not affect automobiles temporarily outside buildings while being transported or moved in the ordinary course of business.

6. Theft, larceny, robbery, or pilferage of any automobile by any person in the insured's household or in the insured's service or employment, whether the theft, larceny, robbery, or pilferage occurs during the hours of the service of employment or not.

The policy provides for a specific limit of liability at each location named in the policy. In addition, there is a separate limit of liability for the following :

1. If the insured acquires a new location during the policy period, there is coverage prior to notice for a period of 48 hours only, at any unnamed location or space within a location owned, rented, or controlled wholly or in part by the insured and used by the insured as a place of storage of automobiles. The period of coverage begins with the commencement of the use of the location by the insured.
2. At any automobile show, fair, or other public exhibition.
3. On automobiles in transit by railroad car or other conveyance, except as limited by the exclusions.
4. On automobiles being driven over the road to a point of destination selected by the insured as the place of storage of the automobiles.
5. At any other location or space within a location which is not owned, rented, or controlled, wholly or in part, by the insured and used by the insured as a place of storage of automobiles.

The premium for the coverage is based upon a monthly report of values. The policy, therefore, requires that on or before the fifteenth day of each month the insured must render to the company a statement of the actual cash value of all automobiles at risk at the end of the preceding month. Separate values must be reported at each location for (a) new automobiles, (b) secondhand automobiles, including automobiles used in repair service, and (c) the amount of the insured's equity, if any, in new automobiles consigned to the insured for sale.

Since the premium depends upon the report made by the insured, the company, at all reasonable times, must have access to the insured's books and records for the purpose of determining any fact relating to the insurance.

As the policy covers only direct damage to the automobile, the company's liability for loss does not include the insured's prospective profit or overhead charges of any nature whatsoever.

There is a possibility that other insurance may be carried. Therefore the dealer's policy will be considered as excess insurance where other insurance exists in the name of or for the benefit of the insured. The automobile dealers' open policy will neither apply nor contribute to the payment of any loss until all other insurance has been exhausted. If the

other insurance contains any limitations, exclusions, or conditions not contained in the dealers' policy, no loss or damage uncollectible from the other insurance, by reason of the limitations, exclusions, or conditions, will be covered by the dealers' policy.

**Automobile Dealers' Open Lot Storage—Theft Endorsement.—**

The policy excludes loss due to theft while in an open lot. This coverage can be obtained by endorsement. Each automobile will be subject to a deductible of \$25 from the amount of each loss not occasioned by the taking of the entire automobile.

**Automobile Dealers' Policy—Blanket Form.—**This form, which is used by dealers who have few automobiles, is similar to the previous form except as follows: (1) a separate limit is placed on new automobiles and used automobiles at each location specified in the policy; (2) for coverage elsewhere, the policy provides that the limit of the company's liability for loss from any one casualty elsewhere than the named locations cannot exceed the amount of loss or damage to not more than four of the insured automobiles. However, as respects automobiles in transit by railroad car or other conveyance (except as limited by the exclusions), or being driven over the road to a point of destination selected by the insured as the place of storage, the limit will be increased to an amount equal to the highest limit at any one of the named locations specified if the amount is greater than the amount of loss to four of the automobiles.

The limit of the company's liability upon any automobile cannot exceed that proportion of the total of the limits of liability at named locations which the value of the automobile at the time of loss bears to the value of all automobiles insured at the time.

**Automobile Dealers' Open Policy—Passbook or Certificate Form.**

—Under this coverage the company is liable only for each automobile which is specifically declared by the insured and accepted by the company, and it excludes automobiles sold under conditional sale, mortgage, lease, or similar agreement.

A declaration of insurance must be made by the insured by reporting to the company in writing (1) a full description of each automobile to be insured, including its cost to the insured or the amount allowed in trade or the amount of the insured's equity; (2) the storage location (if the automobile is not located in a definite storage location it must be reported as "in transit"); (3) the amount of insurance desired; and (4) any other information that the company may require. The insurance upon the automobile commences from the time of its acceptance by the company and continues until canceled or otherwise terminated. The

acceptance of insurance upon each automobile by the company must be evidenced by a proper entry in a passbook provided for that purpose or by a certificate issued, and the passbook or each certificate is made a part of the policy.

In addition to the fire, lightning, transportation, theft, larceny, robbery, and pilferage coverages, the automobile dealers' open policy can also be endorsed to include: (1) collision coverage with a \$50 deductible clause; (2) riot and civil commotion, vandalism, and malicious mischief.

**Premium Charges—Automobile Bodily Injury and Property Damage Premiums.**—Similar methods are used for determining the premium charge for these two forms of coverage. All motor vehicles are divided into four general classes for the purpose of rate making:

1. Private passenger automobile.
2. Commercial automobile.
3. Public automobile.
4. Automobile dealers, repair shops, storage garages, service stations.

Definition of these classifications may be helpful. A private passenger automobile is a motor vehicle of the private passenger type, unaltered, and used for pleasure or business purposes.

A commercial automobile is a motor vehicle of the truck type, including tractors, delivery sedans, and automobiles with pick-up bodies, principally in the business occupation of the named insured, including occasional use for personal, pleasure, family, and other purposes. In addition, a commercial automobile includes a motor vehicle of the private passenger type which has been altered. The term "altered" includes the attachment of a platform or box, or the structural alteration of the exterior of the body, designed to provide the means for transporting merchandise or products.

The public automobile classification includes any automobile used to carry passengers for compensation. The types of automobiles included in this classification are defined as follows:

1. A private livery automobile is a public automobile of any type with a seating capacity not in excess of eight passengers, excluding the driver, rented only from a garage or the residence of the named insured with the named insured or his employee in attendance as chauffeur, for use in connection with social functions, funerals, touring, and similar purposes.
2. A public livery automobile is a public automobile of any type with a seating capacity not in excess of eight passengers, excluding the driver, operated for hire with the named insured or his employee in attendance as chauffeur, but not used to pick up, transport, and discharge passengers along a route.

3. A taxicab is the same as a public livery automobile except that it is equipped with a taximeter.
4. The word "bus" designates an automobile of any type used for carrying passengers over a designated route. This classification includes automobiles of the bus or commercial type used for sightseeing and other special passenger purpose. It applies to gasoline electric busses and busses operated over tracks or propelled by electricity from overhead wires. Busses used for particular purposes are rated in accordance with the risk involved. Busses of this type are: (a) school busses, (b) apartment house busses, (c) real estate development busses, (d) camp, country club, golf club, and hotel busses, (e) cemetery busses, and (f) airport busses.
5. U-Drive, drive-yourself, and driverless cars, are private passenger cars rented without a driver to others.

The final classification covers those enterprises engaged in selling, storing, and servicing automobiles. The automobile dealer is a risk principally engaged in the selling of automobiles. The automobile repair shop is the risk whose principal business it is to repair automobiles and their motors and chassis. The automobile storage garage is defined as a risk principally engaged in storing, parking, washing, and cleaning automobiles.

The functions of the automobile service station, as defined in the fourth classification, are broad. The risk may be principally engaged in the business of operating a public gasoline or oil supply station, or operating a public service station, and its major operations may consist in washing, cleaning, or greasing operations, or in the selling or servicing of incidental automobile parts and accessories. The fourth classification also includes body, fender, radiator repair, and paint shops. Also included are automobile machinery and implement dealers and repair shops. This is a risk principally engaged in the business of selling and repairing automobiles and also other equipment capable of moving under its own power, such as specially constructed machinery, farm implements, road rollers, graders and scrapers, farm trucks, tractors, and truck-tractors.

#### **Private Passenger Automobile Rates.—**

1. *Territory.* The hazard varies throughout the United States, as to density of population, automobile traffic, and legal conditions. The rate for an automobile is the rate for the territory in which the automobile is principally garaged. This rule may be difficult to apply to traveling salesmen. Therefore the automobiles used by salesmen or solicitors or others with similar duties requiring the operation of an automobile in more than one rating territory will be assigned to the territory determined by the place of principal garaging. If there is no specific city or town of principal garaging, the

rate used will be determined by the residential address of the operator. If the residential address of the operator cannot be determined, then the rate used will be determined by the business address of the operator.

2. *Classes of automobiles.* Private passenger automobiles are again divided into three classes:

Class 1 includes private passenger automobiles owned by individuals, the use of which is not required by, or customarily involved in, the duties of the named insured or of any other person customarily operating the automobile in his occupation, profession, or business, except in going to and from his principal place of occupation, profession, or business. Also, there must not be an operator of the automobile under twenty-five years of age residing in the insured's household or employed as a chauffeur thereof. Class 1 applies to all private passenger automobiles owned by farmers or clergymen unless Class 2 is applicable.

Class 2 includes private passenger automobiles owned by individuals where there is an operator of the automobile under twenty-five years of age residing in the insured's household or employed as a chauffeur, regardless of whether the car is used for nonbusiness or business purposes.

If an individual owns more than one automobile, only the number of vehicles equal to the number of operators in his household who are under twenty-five years of age must be classified as Class 2 vehicles. All other private passenger automobiles may be classified as Class 1 or Class 3, whichever is then applicable.

Class 3 includes private passenger automobiles owned by individuals that are used for business purposes, unless Class 2 applies (operator under twenty-five residing in the insured's household). Class 3 also applies to all private passenger automobiles owned by corporations, copartnerships, or unincorporated associations. If the automobile is owned by any of the aforementioned business organizations, an operator under twenty-five years of age is permitted.

Using Class 3 rates, the following illustrates the approximate percentage of rate differential applying to the three private passenger classifications in one territory:

Class 1 .....	100%
Class 2 .....	160%
Class 3 .....	145%

Although a private passenger automobile may be used under a ride-sharing arrangement for the transportation of persons on their way to or from work, the automobile will be regarded as a private passenger automobile.

3. *Increase in limits of coverage.* Bodily injury rates are based upon a

limit of \$5,000 for one person and \$10,000 for more than one person in one accident. Property damage rates are based upon a limit of \$5,000 per accident. These limits may be increased for an additional premium. (See Table 25.)

4. *Motor power.* Separate rates are made for those automobiles driven by electricity and those using gasoline.

TABLE 25. PREMIUM CHARGES FOR INCREASED LIMITS  
BODILY INJURY LIABILITY

Upper Limits (Liability for more than one person in one accident)	Lower Limits (Liability for one person in one accident)				
	\$5,000	\$10,000	\$20,000	\$25,000	\$50,000
Dollars	Per Cent	Per Cent	Per Cent	Per Cent	Per Cent
\$ 10,000	100	110			
20,000	106	115	120		
25,000	107	116	121	122	
30,000	108	117	122	123	
40,000	110	119	124	125	
50,000	112	121	126	127	130
100,000	114	123	128	129	132

PROPERTY DAMAGE LIABILITY

Limit	Per Cent	Limit	Per Cent
\$ 5,000	100	\$ 50,000	125
10,000	110	100,000	130
15,000	115		
20,000	118		
25,000	120		

**Commercial Automobile Premiums.**—The premium charge for commercial automobiles depends upon the following factors:

1. *Territory.* The territorial division is the same as the territorial division used in the determination of rates for private passenger automobiles.
2. *Commercial automobiles classification.* All cars are divided into classes, determined with respect to the business of the insured.
3. *The weight or load capacity.* Depending upon the state, rates are determined by either the weight capacity or the load capacity. In some states classification depends upon the gross weight not over 19,500 pounds and gross weight over 19,500 pounds. In other states the rate depends upon the net vehicle weight (unladen weight) and depends upon the net weight not over 9,500 pounds and net weight

over 9,500 pounds. In other states the classification depends upon the load capacity not over 9,500 pounds and load capacity over 9,500 pounds. In some states the rate depends upon the weight of the chassis, whether not over 7,500 pounds or over 7,500 pounds.

4. *A surcharge* is made if the automobile is customarily operated beyond a 50-mile radius from the limits of the city or town where the automobile is principally garaged, with certain exceptions.
5. *Motor power.* If an automobile is driven by electricity, the rate is lower than for those driven by gasoline.
6. *Increase in limits.* This is on the same basis as that of private automobiles.

**LOCAL AND LONG-HAUL TRUCKS.**—Local and long-haul truckmen have presented special rating problems. It has been necessary to define the truckmen classification and to distinguish between local and long-haul truckmen.

A truckman is a person, firm, or corporation engaged in hauling or transporting commodities for another. A distinction is made between local and long-haul truckmen.

**LOCAL TRUCKMEN'S RATES.**—A local truckman is one whose regular and frequent operations are conducted within a 50-mile radius of the place of principal garaging. He must not make regular or frequent trips beyond the 50-mile radius. The truckman must not advertise or otherwise solicit for the hauling of goods beyond the 50-mile radius. The rates are determined by the rates of the highest rated territory within this 50-mile radius.

If a local truckman operates over a route, no portion of which includes the highest rated territory within a 50-mile radius of the place of principal garaging of the commercial automobiles, he may be insured at the rates for the highest rated territory in which the automobiles are used or garaged. The policy, however, must declare the territorial operations of the truckman. When a local truckman hauls exclusively for one concern, his commercial automobiles will be subject to the rate applicable to that concern, provided the policy specifies that his operations will be so limited.

**LONG-HAUL TRUCKMEN'S RATES.**—Rates for long-haul truckmen are adjusted for the following operating distances: (1) over 50 miles but not in excess of 100 miles, (2) over 100 miles but not exceeding 300 miles, and (3) over 300 miles.

**COMBINED LOCAL AND LONG-HAUL TRUCKING.**—

1. A truckman who engages in local trucking and long-haul trucking may be able definitely to assign specific automobiles exclusively for

local trucking. The rates for the automobiles used in local trucking are determined in accordance with the provisions applicable to local truckmen. The rates for all other automobiles are determined in accordance with the provisions applicable to long-haul truckmen.

2. If a truckman uses all of his commercial automobiles to haul exclusively for one concern, the automobiles are rated as follows:
  - (a) Commercial automobiles used exclusively in local trucking are rated in accordance with the provisions applicable to local truckmen, provided the automobiles are specified and definitely assigned to local trucking.
  - (b) If the commercial automobiles are used at any time in long-haul trucking, they must be rated in accordance with the provisions applicable to long-haul truckmen.

**Public Automobile Premiums.**—Premium charges for public automobiles depend upon the following factors :

1. Territorial classification. The regular territorial classification for private and commercial automobiles is used.
2. Passenger hazard. The bodily injury rate for a public automobile includes coverage for injury to passengers carried in the insured's automobile. If coverage for the passenger hazard is excluded by endorsement, the bodily injury rate for a public automobile is reduced.
3. Type of automobile as explained previously.
4. Increase in limits.

**Garage, Automobile Dealer, and Service Station Liability.**—Special problems are encountered in the bodily injury and property damage insurance written for automobile dealers, repair shops, storage garages, open-air parking stations, and service stations. Usually the insured has more cars than drivers. Furthermore, wide variations exist as to the hazards in and about the place of business and during operation outside of the insured's premises. To meet differing conditions and needs, bodily injury and property damage insurance is provided in several forms: (1) specified car basis, (2) named driver basis, (3) garage pay-roll basis.

**SPECIFIED CAR FORM.**—The specified car policy covers the named insured for the automobile specifically described by the policy.

**NAMED DRIVER FORM.**—This form covers the named insured while the driver named in the policy is driving or riding in the automobile.

**GARAGE PAY-ROLL BASIS.**—This form may be purchased by any risk eligible for garage liability. The premium depends upon the pay roll.

**Premium Charges.**—The premium charges for a garage pay-roll policy covering bodily injury and property damages depend in general upon the following factors :

1. Territorial division. The divisions used are the same as those used in connection with private passenger and commercial automobiles.
2. Pay roll.
  - (a) Division 1.
    - (1) For pay-roll purposes, the following classes are used :  
 Class (a) : Clerical office employees.  
 Class (b) : Officers, proprietors, partners, managers, salesmen, and chauffeurs.  
 Class (c) : All other employees.
    - The pay roll is determined as follows :
      - (1) All executive officers, proprietors, and partners active in the business, as well as all general managers and salesmen, whether compensated on a salary or commission basis, at a fixed amount of \$2,000 each per year.
      - (2) All other employees at their actual remuneration, including commission, bonuses, and any other compensation, subject to an average weekly maximum of \$100 per employee.
  - (b) Division 2.  
 The pay roll for the risk will be used in calculating the premium for the policy, and will be determined as provided under Division 1 except that all classes of employees will be combined.
3. Increase in limits.

**Collision Premium Charges.**—The following are factors which determine the premium charges for collision insurance :

1. Type of car. Premiums vary according as the car is private passenger, commercial, or public automobile, or for garages, automobile dealers, and manufacturers.
2. Territory. The territory where the automobile is garaged during the greater part of the year.
3. List price. All automobiles are classified by original price.
4. Age of automobile. That is, for private passenger automobiles, (a) bought new not less than six months prior to the inception date of the policy ; (b) bought new more than six months prior to the inception date of the policy but not more than 18 months ; (c) bought new more than 18 months but not more than 30 months prior to the inception date of the policy ; and (d) bought new more than 30 months prior to the inception date of the policy.

For commercial automobiles there are two age groups, that is, (a) bought new not more than 18 months prior to the inception date of the policy ; (b) bought new more than 18 months prior to the inception date of the policy.

5. Use of automobile. If a commercial automobile is used for certain special types of work, such as ambulance, fire department, mail truck, the rate is increased to take care of the hazard incident to these occupations.
6. Deductible collision. The premium is decreased if a deductible clause is used.
7. For private passenger automobiles there is a reduction in the premium charge if there is no regular and customary business use of the automobile and if there is no operator under twenty-five years of age in the insured's household.

**Premium Charges for Fire, Theft, and Comprehensive Policies.**

—The following factors affect the premium charges for fire, theft, and comprehensive coverages for private passenger cars:

1. Territory. The territory used is that city or town where the automobile is garaged for the greater part of the year.
2. Age of car: (a) new, not more than 18 months prior to date insurance attaches, (b) all other cars.

For private passenger and commercial automobiles written on the actual value basis, automobiles are divided into four age groups, corresponding to those used for collision premiums.

**Garage Keeper's Legal Liability.**—Rates depend upon the following:

1. The maximum number of customers' automobiles stored and the limit of maximum liability. For example, if the insured stores from 76 to 100 cars, the limit of maximum liability available is \$25,000. If he should store 101 to 120 cars, the limit of maximum liability available to the garage keeper would be \$30,000. If the garage keeper requires higher maximum of liability than automatically available for the number of cars stored, he must pay the premium charged for the number of maximum specified cars. For example, if the garage keeper should store only between 76 to 100 cars, but if he nevertheless desires a limit of maximum liability of \$30,000, he would have to pay a rate as though the maximum specified car limit was 101 to 120 cars. However, if the garage keeper stored between 101 to 120 cars, and if he should desire a maximum liability of \$25,000, there would be no reduction in rate since rates depend primarily upon the number of cars with the limit of liability for that number of cars.
2. Perils covered, that is, (a) fire and explosion; (b) fire, explosion, and theft; (c) collision with \$50 deductible or \$100 deductible; (d) riot and civil commotion; (e) vandalism and malicious mischief subject to a \$25 deductible clause.

**Fleet Premium Reduction—Automobile Liability Insurance.**—Companies recognize the distinction that must be made in rates for the owner

of a fleet of automobiles as contrasted with the owner of one or two cars. The possessor of several automobiles enjoys the reduction afforded by several plans for bodily injury and property damage which follow.

1. **AUTOMOBILE FLEET PLAN.**—A risk of five or more automobiles of any type owned by one insured and under one direct operating management may be written under a policy automatically covering all licensed automobiles and trailers owned by the insured during the policy period. The sliding scale of premium reduction percentages varies with the number of licensed cars, as illustrated in Table 26. The reduction is allowed for bodily injury and property damage liability and also medical payment.

TABLE 26. SLIDING SCALE OF PREMIUM REDUCTION PERCENTAGES

No. of Cars Licensed	Average Reduction	No. of Cars Licensed	Average Reduction
1	0%	10	5.0%
2	0	15	6.7
3	0	20	7.5
4	0	30	10.0
5	0	40	11.3
6	1.7	50	12.0
7	2.9	90	15.6
8	3.8	100	16.0
9	4.4		

The minimum premium for the policy is the manual premium for the five highest rated licensed automobiles owned by the insured at the inception of the policy.

The plan requires that the insured maintain for each location a chronological record of automobiles licensed showing the following:

- (a) The description of each automobile or trailer acquired, and the date of acquisition.
- (b) The description of each automobile or trailer disposed of or sold, and the date of disposition or sale.

This record must be submitted to the company at the end of the policy period or during the policy period if requested.

As the insured may dispose of some of his automobiles or purchase additional automobiles, the charge is made for the actual time the automobile was at risk. In order to determine the number of licensed automobiles owned during the policy period, the following method is used: The total number of car days for the licensed automobiles is divided by the number of days in the policy period. A "car day" is one car insured

for one day. For example, three cars insured for one day equals three car days ; three cars insured for two days equals six car days ; etc.

The following automobiles are not considered in determining the percentage of premium reduction :

- (a) Automobiles and trailers hired by the insured (except automobiles and trailers hired by the insured for a long term and insured on a specified car basis).
- (b) Automobiles and trailers owned by employees of the insured, by partners, individuals, or officers of a corporation, whether or not used in connection with the insured's business.
- (c) Commercial automobiles rated in accordance with the Long-Haul Truckmen Rule used in long-haul operations.

## 2. COMBINATION SPECIFIED CAR AND NAMED DRIVER BASIS.—

This plan is available for all types of automobile risks, provided the number of automobiles insured exceeds the number of drivers. The policy must include the name of each operator and a description of each automobile.

The company is liable under this form only when the automobile is operated by the following :

- (a) The named operator or any person accompanying him.
- (b) Any person employed by a garage or automobile service station for the repairing, calling for, or delivery of the automobile. The garage or service station must not be owned by the named insured if the company is to be held liable in this instance.
- (c) A substitute or successor to a named operator, provided notice of the change is furnished to the company within ten days.

A full rate is charged for the number of highest-rated automobiles corresponding to the number of named drivers, and 25% of the manual rate for each extra automobile.

## 3. GROSS RECEIPTS BASIS.—

Owners of certain automobiles may obtain insurance on the gross receipts basis. For example, a risk comprised of three or more public automobiles which has been in business for at least 15 months preceding the effective date of the policy may be written on a gross receipts basis. Such a policy will cover all public, commercial, and private passenger automobiles, whether or not owned by the insured, which are used in connection with the insured's public passenger-carrying operations.

The premium is based upon each \$100 of actual total gross receipts, whether or not collected, for all the automobiles insured during the policy period. The policy is subject to a minimum premium.

A local trucking risk which has been in business for at least 15 months

preceding the effective date of the policy may be written on the gross receipts basis, provided that the risk consists of at least 10 commercial automobiles or tractors which are used in the insured's trucking business. The same requirements apply to a long-haul truckman, except that the risk need consist of only five long haul trucks or tractors. The policy for all truckmen covers all equipment, whether or not owned by the insured, which is used in long-haul or local trucking operations during the policy period.

4. **MILEAGE BASIS.**—Any public automobile risk or long-haul trucking risk which qualifies for rating under the gross receipts basis also qualifies for rating under the mileage basis. The premium is based on the total mileage, both dead and alive, of all revenue-producing units whether owned or not. The insured must maintain separately, for each automobile insured, a record of all mileage developed during the policy period. These records must be submitted to the company upon request and the policy is subject to a minimum premium.

5. **EXPERIENCE RATING.**—This plan is available for any fleet of automobiles under one ownership and under one direct operating management. The plan provides that all risks that qualify in accordance with this rule must be submitted annually for experience rating. Rates will depend upon past loss experience. A discussion of experience rating is given again in Chapter 22.

**EXPERIENCE PERIOD.**—The manual rate is modified by the experience of the year immediately preceding the expiring policy year. If available, the experience for the second year preceding the expiring policy year is also used in computing the rate modification for the policy.

**RISKS ELIGIBLE.**—A risk is eligible, as shown by the rules of one state for automobile liability, provided that the following circumstances obtain:

1. The risk consists of five or more automobiles of any type (three or more, if of the bus type) under one ownership, or the equivalent thereof in car years, which develops a premium of \$750 or more during the latest year or two years of the experience period; or
2. A risk using nonowned automobiles develops a premium of \$750 or more for such automobiles for the latest year or two years of the experience period; or
3. If the risk is of the garage type and develops a pay roll of \$30,000 or more during the latest year or latest two years of the experience period.

In (1) and (2) above, the premium requirement is computed on the basic limits at the rates in force at the time application is made for experience rating.

**Fleet Premium Reduction—Automobile Physical Damage.**—Special fire and theft rates and collision premiums may be obtained for fleets of automobiles. Eligibility for fleet rating depends upon the following factors:

1. The entire fleet must be under one ownership.
2. The entire fleet must be used for business purposes.
3. The fleet of automobiles must consist of five or more self-propelled units.

Experience rating for fleets insured for automobile physical damage is also available.

**Drive Other Cars—Broad Form.**—The standard automobile insurance policy provides coverage for the named insured and his spouse while driving other private passenger automobiles in connection with personal activities and business purposes, and trucks for nonbusiness purposes. However, there is no coverage while driving trucks or public automobiles for business purposes. If the insured is required to drive a commercial vehicle in connection with his business (including automobiles hired when out of town), he should secure Drive Other Cars—Broad Form coverage. The insurance policy then would cover the insured during his operation of trucks or public automobiles, whether or not in the course of business. Moreover, as a result of the application of the Financial Responsibility Law, the insured might not be permitted to operate any automobile unless he furnished indemnity against accidents. The Drive Other Cars—Broad Form endorsement may be used by an automobile owner who is required to file a certificate of financial responsibility with the state.

**Drive Other Cars—Limited Form.**—This form is similar to the broad form except for the fact that coverage is provided only for the use of private passenger automobiles in connection with personal activities and business purposes, and trucks for nonbusiness purposes. In most cases, the limited form is sufficient to provide the desired coverage. The premium charge for the limited form is lower than the charge for the broad form.

The Broad or Limited Form is available for any relative residing with the owner of the automobile if an individual, or, if the automobile is owned by a corporation or partnership, any relative of an officer or partner who resides with that officer or partner.

**Insurance Without Ownership of Any Type Automobile.**—Many persons who do not themselves own cars have occasion to drive automobiles owned by others. To meet this need, a Named Non-Owner Policy may be written to cover the named insured and his or her spouse if a resident of the same household, when driving any type automobile, or if desired, limited to the driving of private passenger-type automobiles only. Coverage for accidents arising out of the use of an automobile by the insured as a public or livery conveyance is not included in the coverage of the policy.

A Named Non-Owner policy does not cover when :

1. The insured drives an automobile registered in the name of or owned in full or in part by the named insured, or a member of his household (except if owned by a servant or chauffeur of the insured or his or her spouse).
2. The insured, spouse, servant, or chauffeur does not occupy the vehicle while the vehicle is used in the business or occupation of the named insured or spouse.
3. Any accident arises out of the operation of any garage type risk.

The premium is based on the following factors :

1. Use of the vehicles—whether for regular business use or not.
2. Age of the insured or spouse—whether over or under twenty-five years of age.
3. Type of vehicles to be driven—whether private passenger type only or any type except public livery vehicles.
4. Whether the vehicles to be used will be used as public livery vehicles, in which case special rates will apply to that risk, depending upon the actual use involved.

A person who is required to file evidence of financial responsibility may dispose of his automobile and desire to retain his driver's license. If he cancels his insurance when he sells his car, his license will be recalled by the state. To avoid recall of his license, he can purchase a named non-owner's policy and comply with the requirement of the state law which requires him to carry insurance if he wishes to continue to drive an automobile.

**Hired Automobile Coverage.**—A commercial concern may desire protection against the hazards incident to the operation of cars hired from others. This coverage is available in the following forms: (1) specified car basis and (2) cost of hire basis.

**SPECIFIED CAR FORM.**—Insurance is available on the specified car basis at the same rate as though the hired automobiles were owned by

the insured. If the rate is lower than the rate applicable to the owner of the hired automobile, the interest of the owner will not be covered under the policy.

**COST OF HIRE.**—If insured on the cost of hire basis, all automobiles and trailers hired by the insured are automatically covered.

It is not permissible to include the interest of the automobile owner and his employees in this coverage. The policy may also expressly exclude specific automobiles from coverage.

The insured must keep a chronological record for each location of (1) the number and type of automobiles and trailers hired, (2) the names of the concerns from whom the automobiles and trailers were hired, (3) the cost of hire by type of automobile and trailer. The record must be available to the company upon request. If automobiles are hired without chauffeurs, the amount incurred for the hire of automobiles must include the wages of the chauffeurs used by the insured to operate the automobiles.

**Employers' Nonownership Liability.**—An employer may require that some of his employees use their own automobiles in the employer's business. In return, he may agree to reimburse the employee for the cost of operating the automobile. As stated previously, there is a possibility that the employer may be held liable for an accident caused by the employee, although the automobile does not belong to the employer. If the employee has insurance on his automobile, the policy may be endorsed to protect both the owner and his employer.

If the employer so desires, he may obtain nonownership liability coverage, covering private and commercial automobiles and trailers and semitrailers operated by his employees in the conduct of his business. This coverage is not available for automobile dealers, repair shops, storage garages, and service stations. Coverage includes motor vehicles of the private passenger type and motor vehicles of the commercial type operated by employees of the insured where the operation is occasional and not frequent. Should there be regular and frequent operation by employees of motor vehicles of the commercial type in the business of the insured, the policy can be extended to cover the named insured. The motor vehicles of the private passenger or commercial type must not be owned in whole or in part, or hired or leased by, or registered in the name of, the insured, or by the individual partners, if the insured is a partnership.

As protection is limited to the named insured only, the additional interest clause of the policy, as explained on page 546, is eliminated for nonownership insurance. However, the coverage will include insurance for the officers of a corporation as additional insured without any addi-

tional premium charge to cover their liability as officers of the corporation for the operation of motor vehicles if insurance is afforded the corporation under the nonownership policy.

If there is any other insurance available to the insured, the nonownership coverage is excess over and above any other valid and collectible insurance under which the named insured is entitled to recover. Therefore if the employee carries insurance, and the employee's insurance is available to the employer, there would be excess coverage only under the nonownership coverage.

The premium for the coverage is determined in accordance with the number of officers and employees of the insured, whether compensated on a salary or commission basis, and the number of direct agents and representatives who are exclusive agents or representatives of the insured. All employees are divided into the following classes:

#### CLASS 1 PERSONS

- (a) All outside officers and employees, whether compensated on a salary or commission basis or both, whose usual duties involve the use of motor vehicles which are not excluded by the manual rules in the business of the insured.
- (b) All other officers and employees, whether compensated on a salary or commission basis or both, whose usual duties involve the use of motor vehicles, which are not excluded by the manual rules in the business of the insured, and who receive a specific operating allowance of any kind, such as rate per mile, gas, oil, tire, upkeep allowance, or where the salary, commission, or terms of employment contemplate the use of a motor vehicle.
- (c) All direct agents and representatives who are not officers or employees of the insured and who insofar as the business of the insured is concerned, are exclusive agents or representatives of the insured, and whose usual duties involve the use of motor vehicles which are not excluded in the manual rules for the business of the insured.

#### CLASS 2 EMPLOYEES

All officers and employees not included in Class 1 Persons.

An advance premium is determined by applying the rates by location for each Class 1 employee, as determined by the headquarters of such persons, and by a charge for each Class 2 person wherever located. A schedule containing the name and headquarters address of each Class 1 person and the total number of Class 2 employees must be made part of the policy.

The insured must maintain a chronological record of the changes during the policy period in the number of persons as follows:

1. For Class 1 persons, the name and headquarters of each additional person and of each person whose employment or connection with the insured has terminated, indicating the date of each change.
2. For Class 2 employees, any increase or decrease in the number of employees at each location.

The record must be submitted to the company at the end of the policy period or during the policy period if requested. A premium adjustment is made on a prorata basis for changes in the number of Class 1 persons and Class 2 employees. Risks having more than 25 Class 2 employees are entitled to a discount in the rate for Class 2 employees. The size of the discount will depend upon the number of Class 2 employees.

**Medical Payments.**—The premium charge for medical payments is determined as follows: (1) the bodily injury rate; (2) the limit per person, which varies from \$250 to \$5,000.

**Suspension of Coverage or Lay-up Allowance.**—If any automobile owned by the insured is discontinued from use or suspended from service for a period of not less than 30 consecutive days, and if advance notice of such suspension is given to the company, coverage on the automobile for public liability and collision may be suspended by endorsement. A prorata return premium for the period of suspension, computed at the rates in effect at the time the policy was issued, is allowed at the time of audit. During the period of suspension, automatic coverage is eliminated with respect to the automobile. The reduction for fleet rating is adjusted to reflect the period of lay-up at the time of audit. The insurance will be reinstated on request of the insured not earlier than the receipt of the request by the company or any of its authorized representatives.

Suspension of coverage or lay-up allowance does not apply to (a) a risk for which a certificate has been filed in accordance with a financial responsibility law, or (b) a risk subject to the requirements of a state or Federal authority regulating motor carriers of passengers or property.

**Statutory Insurance.**—A number of states have passed laws making it mandatory for owners of public automobiles to protect the public

TABLE 27. STANDARD LIMITS FOR PUBLIC AUTOMOBILES

Seating Capacity	Bodily Injury	Property Damage
0-7	\$5,000/10,000	\$5,000
8-12	5,000/15,000	5,000
13-20	5,000/25,000	5,000
21-30	5,000/40,000	5,000
Over 30	5,000/50,000	5,000

against injuries to persons or damage to property. This may be accomplished through a bodily injury and property damage policy. The law usually establishes a minimum amount of insurance which must be carried. The New York State Vehicle and Traffic Law, for example, requires insurance on public automobiles with the limits given in Table 27, based upon seating capacity.

**Compulsory Automobile Insurance.**—There has been considerable agitation to require every owner of a private or commercial automobile to insure himself against liability for damage resulting from injury to persons and property. The reason is that an individual with limited financial responsibility frequently operates an automobile. When a judgment obtained is against such individual there may be little chance of payment. As a result, many who have been crippled, and dependents who have lost their support as a result of death from automobile accidents, may not be compensated for their loss. One way to meet this situation is to require by law that individuals carry automobile insurance. The State of Massachusetts has such a law. As explained above, New York State has such a law for public vehicles. Many states, notably New York and New Jersey, have financial responsibility laws which prohibit under certain circumstances the use of a private or commercial automobile unless the owner can meet the requirement of financial responsibility. If insurance is required, the Financial Responsibility Law makes the insurance company absolutely responsible for any judgment within the statutory limit requirement, even though the insurance company may have a defense against the driver of the automobile.

**Massachusetts Compulsory Automobile Liability Security Act.**—The Massachusetts Compulsory Automobile Liability Security Act became effective on January 1, 1927. It provides, in general, that all kinds of automobiles, whether truck, private vehicle, or trailer, must be insured. The act, however, does not affect an automobile owner who is not a resident of Massachusetts, unless he uses his automobile for more than 30 days in any one calendar year on the public ways of Massachusetts. Automobile owners who are residents of Massachusetts, and who are registered in the state, do not come under the control of the act if they should have an accident outside of the state.

Before an automobile can be registered in the State of Massachusetts, the owner must have provided security by one of three methods. The first method is by obtaining a motor vehicle public liability policy. This is a policy of liability insurance which provides indemnity for or protection to the insured's motor vehicle or trailer with his express or implied consent against loss by reason of the liability to pay damages to others for bodily injuries or death. Each owner must insure his automobile

with the \$5,000 and \$10,000 limits. Guest occupants, however, are not covered. The insured can purchase, in the same policy, noncompulsory coverage for (1) accidents to guest occupants, (2) accidents occurring other than on the public ways of the State of Massachusetts, (3) accidents occurring outside the State of Massachusetts, and (4) property damage.

The second method of providing security is to obtain a motor vehicle liability bond, which provides that the obligor shall within 30 days after the rendition of judgment satisfy the judgment rendered against him or against any person responsible for the operation of the obligor's motor vehicle or trailer with his express or implied consent. The owner must also secure a bond providing the \$5,000 and \$10,000 limits.

The third method by which security is provided for registration purposes in Massachusetts is the deposit of \$5,000 in cash, bonds, stocks, or other evidences of indebtedness satisfactory to the division of highways of the department, or other evidence of indebtedness of a market value of at least \$5,000.

When presenting his application for registration each year, the owner of the automobile must accompany the application with a certificate showing that one of the three methods has been complied with, or that a binder has been obtained pending the issuance of a motor vehicle liability policy.

The act is not concerned directly with injured persons, but only with the liability to pay damages to the injured persons for personal injuries, including death. Moreover, injuries sustained or death must have occurred in the State of Massachusetts, and then on its public highways. Those occurring in private ways are not covered by the act. This exclusion, however, does not apply to ways laid out under authority of statute, dedicated to public use, or under the control of the park commissioner or anybody having like powers.

Liability for property damage is not affected by the act. In case a property damage judgment is obtained and is unsatisfied for 60 days, however, the license is suspended unless, at the time of the accident, property damage insurance is carried in at least the amount of \$1,000.

The motor vehicle liability policy may be issued by any company, stock or mutual, authorized to write liability insurance in Massachusetts. The motor vehicle liability bond may be issued by any company, stock or mutual, authorized to write surety bonds. The form of either the policy or bond must be approved by the commissioner. The policy may be canceled by either the insured or the company provided a 15-day written notice is given by the party proposing cancellation to both the other party and the registrar of motor vehicles. If a carrier cancels a policy, the automobile owner may file a complaint with the Board of Appeals.

The rates for the liability policies and bonds must be approved by the Commissioner of Insurance as adequate, just, reasonable, and non-discriminatory, and the classification of risks must be approved by him.

**New York Automobile Financial Responsibility Act.**—The act provides that the Commissioner of Motor Vehicles will require evidence of financial responsibility under the following circumstances :

1. For conviction or forfeiture of bail or collateral if a person has been convicted of any of the following offenses :
  - (a) Homicide or assault arising from operation of a motor vehicle.
  - (b) Reckless driving, where injury to the person or property actually results therefrom.
  - (c) Operating a motor vehicle contrary to speed laws, where injury to the person or property actually results therefrom.
  - (d) Operating a motor vehicle when in an intoxicated condition.
  - (e) Leaving the scene of an accident.
  - (f) An offense committed in any other state or province which in New York would fall under any of the foregoing offenses.
  - (g) Criminal negligence in the operation of a motor vehicle, resulting in death.
2. For failure to satisfy, within 15 days, every final judgment in excess of \$50 for property damage or any amount for bodily injury resulting from ownership, maintenance, or use of a motor vehicle within limits of \$10,000/\$20,000 for bodily injury and \$5,000 for property damage.
3. For any reasonable ground appearing on the records of the Motor Vehicle Bureau in the opinion of the Commissioner.
4. For any automobile registered in the state by a person under 21 years.

The various provisions of the law apply to a person who is not a resident of the state under the same circumstances as they would apply to a resident. In order to be permitted to operate his automobile thereafter, the owner must show financial responsibility to the state. Financial responsibility may be evidenced by the following means :

- (a) The certificate of an insurance company duly authorized to do business in the state, certifying that it has issued a motor vehicle liability policy as defined in the Motor Vehicle Act for limits of liability of not less than \$10,000/\$20,000 bodily injury and \$5,000 property damage, except for vehicles registered by owners under 21 years of age, in which case the required limits must not be less than \$5,000/\$10,000 bodily injury.
- (b) The bond of a surety company authorized to do business in the state, or a bond of the person giving proof and two individual sureties, each owning real estate within the state, such bond to be approved by a county judge or justice of the supreme court. A bond is not acceptable unless subject to the same limits and general provisions of an insurance policy.

- (c) A receipt of the Department of Taxation and Finance showing a deposit of \$15,000 in cash or securities.

The law also provides that before a policy for which a certificate has been filed can be canceled or suspended, ten days' notice must be given to the Bureau of Motor Vehicles. The insured is then required to surrender his registration plates or operator's license until a new certificate of reinstatement is filed. When a certificate of insurance must be filed to comply with the requirements of an automobile financial responsibility law, a surcharge to the premium is usually made. The following schedule illustrates some surcharges :

- (a) 50% Surcharge: If the certificate is required for a conviction of
- (1) Driving a motor vehicle while intoxicated,
  - (2) Failing to stop and report when involved in an accident,
  - (3) Homicide or assault arising from operation of a motor vehicle.
- (b) 25% Surcharge: If the certificate is required for a conviction of
- (1) Driving a motor vehicle at excessive speed where an injury to person or damage to property actually results therefrom,
  - (2) Driving a motor vehicle in a reckless manner where an injury to person or damage to property actually results therefrom.
- (c) 5% Surcharge: If the certificate is filed for any other reason.
- (d) The 50% and 25% surcharges required in (a) and (b) above are applied for the three years after conviction. Thereafter the surcharge is reduced to 5%.

**The Saskatchewan Plan.**—Primarily, the liability for accident of a driver, who owns an automobile, depends on the driver's negligence and the absence of negligence on the part of the injured. The Province of Saskatchewan, Canada, has enacted legislation making all automobile owners subject to a law which generally eliminates the defense of negligence against the injured. Under the law, every person who is injured by an automobile is insured up to a stated limit for financial loss resulting from personal injury or death. The insurance protection applies not only within the province, but also to residents of Saskatchewan driving or riding outside the province in an insured Saskatchewan car.

As the operator of the automobile is liable, regardless of negligence, no injured person can sue the owner or operator of a motor vehicle on account of injury for which benefits are payable under the act, except for an amount over and above the benefits granted by the act. The law does not grant benefits to the following :

1. Drivers and passengers of a self-propelled vehicle which is not required to be registered under the Vehicle Act, as for example, a farm tractor or a foreign car.
2. A person who by reason of the accident is entitled to claim compensation under the Workmen's Compensation Act.

3. A person or accomplice who has violated the provisions of the Criminal Code of Canada or is fleeing from the scene of the criminal offense.
4. Driver or owner-occupant of a motor vehicle driven in a manner amounting to gross negligence or wilful misconduct.
5. A driver so under the influence of liquor or drugs as to be incapable of properly controlling the motor vehicle.
6. A passenger so under the influence of liquor or drugs that he interferes with the proper control of the motor vehicle and contributes to the accident.
7. An operator without a driving license for the current year.
8. A driver or owner-occupant of a motor vehicle not registered under the Vehicles Act for the current year.
9. A driver or owner-occupant of a motor vehicle with an unlicensed trailer attached.
10. Driver and passengers who overcrowd a motor vehicle and interfere with proper driving.
11. Persons riding in or on any portion of a motor vehicle not designed for the seating of passengers or the carrying of a load.
12. Passengers not seated in a reasonably safe manner on that portion of a truck designed for carrying a load.
13. A driver, owner-occupant, or any other person who causes or permits a bicycle, handsleigh, or other thing, without license, to be attached to a motor vehicle for the purpose of being pushed or pulled.
14. Persons who are injured as a result of taking hold of a motor vehicle to be pushed or pulled.
15. A person who falsely describes a motor vehicle to be insured, or knowingly misrepresents or fails to disclose information when he obtains a license and insurance, to the disadvantage of the insurer.

The act provides payment for various classes of benefits, that is, stipulated amounts for the following :

1. Weekly indemnities.
2. Dismemberment benefits.
3. Death benefits.
4. Out-of-pocket benefits, which means payment to any injured person requiring more than one attendant or doctor for pain and suffering, and other similar expenses.

As the operator of the vehicle may be held liable at law for an amount greater than the benefit granted under the Saskatchewan Compulsory Automobile Act, he must consider whether he desires to continue his automobile liability policy in addition to the protection provided by the act.

**Assigned Risk Rating Plan.**—An individual who needs automobile liability insurance may find difficulty in obtaining an insurance company

to carry his risk. Some individuals who find such difficulties should nevertheless be granted insurance under certain circumstances. In order to provide insurance for individuals who in good faith are entitled to insurance, a plan known as the assigned risk rating plan has been developed by the various insurance companies that write automobile liability insurance. To illustrate the practices of the plan, reference will be made to the practice of one state. Under the plan the companies have appointed a manager to assign such risks to the various companies. The manager distributes these risks, as far as practicable, to carriers in proportion to their respective net direct automobile bodily injury premium writings, giving consideration to exclusions under any reinsurance agreement of the carrier filed with the manager, and with due regard to the facilities of the carrier for servicing the risk.

This plan is available so far as nonresidents of the state are concerned, with respect to all automobiles registered in the state and not specifically excluded from the state Motor Vehicle Safety Responsibility Act. Therefore the place of registration rather than the residential address governs whether or not a risk is eligible for assignment under the plan, provided the automobile must have a state license.

No company is required to write a policy for limits higher than the standard limits of \$5,000/\$10,000 bodily injury and \$5,000 property damage unless these higher limits are required by the state Motor Vehicle Safety Responsibility Act. The company to which the risk is assigned must comply with the filing requirements applicable to the risk under the state Motor Vehicle Safety Responsibility Act.

**GOOD FAITH.**—The plan applies only to a risk that in good faith is entitled to insurance, and has been unable to obtain insurance in the regular manner within sixty days prior to the date of application to the assigned risk plan. A risk is not considered to be in good faith entitled to insurance nor will the coverage be extended:

1. If the applicant is engaged in an illegal enterprise, or has been convicted of a felony or high misdemeanor during the preceding thirty-six months, or habitually disregards local or state laws as evidenced by two or more non-motor vehicle convictions during the thirty-six month period prior to the date of application.
2. If the applicant or anyone else who usually drives the automobile has, during the thirty-six months prior to application, been convicted or forfeited bail more than once for any one, or once each for two or more of the following offenses:
  - (a) Driving a motor vehicle while under the influence of intoxicating liquor or narcotic drugs.
  - (b) Failing to stop and report when involved in an accident.
  - (c) Homicide or assault arising out of the operation of a motor vehicle.

- (d) Driving a motor vehicle at an excessive rate of speed where injury to person or damage to property actually results therefrom.
  - (e) Driving a motor vehicle in a reckless manner where injury to person or damage to property actually results therefrom.
  - (f) Operating during a period of revocation or suspension of registration of license.
  - (g) Operating a motor vehicle without authority.
  - (h) Lending operator's license to an unlicensed operator.
  - (i) The making of false statements in the application for license.
  - (j) Impersonating an applicant for license or registration, or procuring an impersonation, whether for himself or another.
3. If the applicant has during a period of twelve months immediately preceding the date of application intentionally registered a motor vehicle in the state illegally.
  4. In any case in which the applicant or anyone who normally or usually drives the automobile, or anyone who drives it with the knowledge that the applicant has failed to meet all obligations to pay automobile bodily injury and property damage liability insurance premiums contracted during the previous twelve months.
  5. If the applicant or anyone who usually drives the automobile is subject to epilepsy.

The company to which a risk is assigned is not required to afford insurance if the applicant's automobile is in such a condition as to endanger public safety. If the applicant makes the required repairs to his automobile, he will be offered insurance.

**DISABILITIES.**—The applicant, or anyone who normally or usually drives the automobile, may be subject to a physical disability. Risks with physical disabilities involving heart ailments or mental or nervous illnesses are subject to investigation and must submit for consideration satisfactory certificates from at least two qualified doctors, giving their diagnosis of the disability or their opinions as to the likelihood of such disabilities' interfering with the risk's safe operation of an automobile.

**FINANCIAL RESPONSIBILITY.**—The designated insurer must issue the policy upon payment of the required premium, as respects each eligible assigned risk who is required to file evidence of financial responsibility in order to retain or regain his operator's license or motor vehicle registration, before filing any request for re-certification of such applicant by the Motor Vehicle Commissioner.

**RE-ELIGIBILITY OF REJECTED APPLICANTS.**—An applicant under the plan, rejected for cause, if the rejection is sustained, is not eligible to reapply for coverage under the plan until a period of one year has elapsed from date of the rejected application. In addition, if an assigned risk policy is canceled under the provisions of the plan, the owner

of the automobile is not eligible to reapply for assignment until one year after the effective date of cancellation.

**PREMIUM CHARGE.**—All risks that are assigned under the plan are subject to the manual rules. In addition the risk may be subject to the following: An additional charge of 10% for public passenger carrying and long haul trucking risks and 15% for all others will be made if the applicant or any one who usually drives a motor vehicle has, during the 36 months immediately preceding the date of application for assignment, and in the case of renewal during the 36 months immediately preceding the effective date of the renewal policy,

- (a) Been involved as an operator or owner in a motor vehicle accident resulting in injury to or death of any other person or damage to property of another.
- (b) Been convicted of any violation of the motor vehicle code other than specified on pages 587-588 and other than a conviction for parking.
- (c) Been convicted of any nonmotor vehicle offense and sentenced to imprisonment for five or more days or fined \$50 or more.

An additional charge of 25% will be made if the applicant or any one who usually drives a motor vehicle has during the 36 months immediately preceding the date of application for assignment, and in the case of renewal during the 36 months immediately preceding the effective date of the renewal policy,

- (a) Been involved as an operator or an owner in more than one motor vehicle accident resulting in injury to or death of any other person or damage to property of another.
- (b) Been convicted of any of the violations specified in the paragraph on good faith, subdivision 2, pages 587-588.
- (c) Been convicted more than once of any violation of the motor vehicle code other than specified in the paragraph on good faith, subdivision 2, pages 587-588, and other than conviction for parking.
- (d) Been involved as an owner or operator in a motor vehicle accident as a result of which he has been required to furnish proof of financial responsibility.
- (e) Been required under a financial responsibility to furnish proof of financial responsibility for any reason other than having been involved in a motor vehicle accident.

**INCREASED PREMIUM CHARGE.**—If the experience, physical, or other conditions of any risk applying for coverage under the plan are such as to indicate that the hazard of the risk is greater than that contemplated by the rates or minimum premiums normally applicable to the risk, the company may charge such rates and minimum premiums as are commensurate with the greater hazard of the risk, subject to approval by the Superintendent of Insurance.

**CANCELLATION.**—The policy can be canceled if :

1. The applicant is not, or ceased to be, in good faith entitled to insurance.
2. The applicant has failed to comply with reasonable safety requirements.
3. The applicant has violated any of the terms or conditions upon the basis of which the insurance was issued.
4. The insurance was obtained through fraud or misrepresentation.

In all cases the reasons supporting the action must be filed with the manager and the Superintendent of Insurance of the state ten days prior to the effective date of cancellation.

**RIGHT OF APPEAL.**—Any applicant under the plan, or any company, having a grievance respecting the operations of the plan, may appeal to the Governing Committee, which reviews all evidence and renders a decision. If a party in interest is dissatisfied with the decision of the Governing Committee, he may appeal to the Superintendent of Insurance of the state, whose decision is final.

**Prevention of Losses.**—The need to reduce losses caused by operation of automobiles is obvious. The following are among the methods which have been used to decrease accidents, as covered by various forms of insurance.

#### BODILY INJURY, PROPERTY DAMAGE, AND COLLISION INSURANCE.

*Education.* The various insurance companies publish information concerning losses, calling the attention of the public to the danger resulting from the use of automobiles. Furthermore, pamphlets giving courses in safety education are distributed by them throughout the schools.

*Lectures.* Safety engineers deliver lectures to chauffeurs of fleets.

*Traffic Regulation.* The rights of the pedestrians and of the operators of automobiles are being standardized by legislation. Laws have been passed to enforce the following safeguards:

1. Anyone who proposes to drive an automobile must pass an examination to show that he is qualified to drive.
2. Speed, especially in congested cities, is limited.
3. Traffic is directed under police department supervision.
4. One-way streets must be used as such, with penalties for violators.

*Inspection by Insurance Companies.* In some cases the insurance companies inspect the automobile prior to issuing a policy to make certain that the automobile is in good condition. In addition, there is frequently an investigation of the owner of the car to determine whether he is a desirable risk.

*Improved Automobile Construction.* This is the contribution of the automobile manufacturers toward the prevention of accidents.

*Experience Rating.* Wherever possible, the insurance companies desire to measure the difference between careful and careless drivers. By the use of the experience rating plan, credits are allowed to owners of fleets of automobiles if their past loss experience is good, and a charge is made if their experience is bad.

**THEFT INSURANCE.**—The following methods have been devised to reduce theft losses :

*Title Laws.* Many states have passed laws prohibiting the sale of automobiles unless the seller can give a title certificate registered by law.

*Central Information Bureau.* The automobile insurance companies have organized a central bureau to investigate thefts of automobiles. The bureau has succeeded in apprehending many criminals.

*Federal Legislation.* Congress has enacted legislation providing that the transportation of stolen automobiles between states is a violation of the interstate commerce laws, and therefore a Federal crime.

**FIRE INSURANCE.**—An automobile manufacturer may submit his automobile for examination by the Underwriters' Laboratories for approval. The organization will offer suggestions for the reduction of fire hazard, and point out defects in construction and material.

### QUESTIONS AND PROBLEMS

1. Describe the principal hazards that result from the use of automobiles for which insurance provides protection.
2. (a) *A* purchased an automobile bodily injury and property damage policy with standard limits, including \$1,000 medical coverage. Discuss the company's liability for the following :
  - (1) While *A* was driving his automobile, *A* was injured and also his guests, *B* and *C*. The accident, however, was not due to *A*'s negligence. *B* paid \$600 and *C* paid \$800 for medical services. *A* also paid \$200 for his own medical expenses.
  - (2) Suppose the above accident occurred while *B* was driving with the permission of *A*.
  - (3) While *A* was driving *D*'s automobile, *A*'s wife, who was in the automobile, was injured.
  - (4) After *A* had purchased the policy, he acquired a trailer to be attached to his automobile. However, he did not notify his

insurance company. While driving the automobile and trailer, *A* injured *E*.

- (5) Suppose the trailer was used as a trailer home.
  - (6) *A* used his automobile and trailer to transport merchandise in connection with *A*'s business. While driving the automobile and trailer, *A* injured *F*.
  - (7) *G* was injured by *A*'s automobile. Judgment was rendered against *A* for \$4,000. This judgment was not paid until 60 days after judgment had been entered on the county records.
  - (8) While driving *A*'s automobile, *H*, who was *A*'s chauffeur, damaged *I*'s automobile. *I* claimed \$500 for damage to his automobile and for the cost of hire of another automobile while his automobile was being repaired.
  - (9) As a result of an accident, the automobile injured *J*, *K*, and *L*. Action was commenced against *A*, and judgments were recovered as follows: *J*, \$1,000; *K*, \$6,000; and *L*, \$2,000.
  - (10) What if the judgments recovered had been as follows: *J*, \$4,000; *J*'s husband, for loss of services, \$500; *K*, \$5,000; and *L*, \$6,000?
  - (11) On June 20 *M* was injured by *A*'s automobile, and he subsequently recovered \$4,000. On August 15, *N* was injured by *A*'s automobile, and he subsequently recovered \$6,000.
  - (12) *A* carried insurance on his automobile subject to a \$250 deductible clause for bodily injury. While driving, an employee of *A*'s injured *N*. *N* sued *A* and recovered \$1,000. The expenses paid by the company to defend the suit were \$175.
  - (13) Suppose that, in the above problem, *N* obtained judgment against *A* for \$100.
- (b) *A*, who owned three private pleasure automobiles, and *B*, who owned two automobile trucks, desired automobile bodily injury coverage with \$250 deductible, and property damage coverage with \$50 deductible. What is the possibility of obtaining the insurance?
3. *R* had an automobile with bodily injury policy 5/10 limits, and \$5,000 property damage effective June 15. Discuss the company's liability under the following conditions:
- (a) While *R* was driving his automobile in Canada, *R* injured *C*.
  - (b) *R* gave *B* permission to drive his automobile. While *B* was driving the automobile, *C* was injured by the automobile.
  - (c) What if, in the problem above, *R* was the owner of a public garage?
  - (d) What if, in problem (b), *R* was injured while *B* was driving the automobile?
  - (e) On July 1 *R* notified the company that he had exchanged his automobile for another. On July 5 *E* was injured by *R*'s faulty driving of the new automobile. *R* had no other automobiles.
  - (f) While driving *F*'s car, *R* injured *G*.

- (g) Suppose the accident described in (f) occurred while *R*'s wife was driving *F*'s automobile?
4. Explain the company's liability for the following :
- (a) *M*, who was 20 years old, purchased a bodily injury and property damage policy. *M* used *B*'s automobile. While *M* was driving the automobile, he injured *C*.
  - (b) State the company's liability in the above problem if *B* was *M*'s brother and lived in the same home with *M*.
  - (c) State the company's coverage in the case just presented if *M* paid *B* \$20 a week for the use of *B*'s automobile.
  - (d) What if *B* was *M*'s employer and furnished the car for *M*'s use?
  - (e) *M* used *C*'s truck in connection with *M*'s business. While driving *C*'s truck, *M* injured *D*.
  - (f) As a result of a breakdown of *M*'s automobile, *M* borrowed *F*'s automobile for 30 days. While driving *F*'s automobile, *M* injured *G* and *H*.
  - (g) *M* gave *I* permission to drive his automobile. *I* was 25 years old and did not have an operator's license. While the automobile was being driven by *I*, *J* was injured.
  - (h) *K* paid *M* \$50 to take him on a business trip. During the trip, *L* was injured by *M*'s automobile.
  - (i) While speeding, *M* noticed that *Q*, who was in another automobile, appeared to drive faster. *M* and *Q* commenced to race their automobiles. During the course of the race, *M*'s automobile injured *Q*.
  - (j) Manufacturer *M* employed *O* to drive his truck. While the truck was being backed into a platform to unload goods, the automobile injured *P*, an employee of *M*'s.
  - (k) Indicate the company's liability in the case just presented if *P* was employed regularly by *M* in *M*'s home.
  - (l) What if, in problem (j), the automobile had injured *Q*, who was an employee of *R*?
  - (m) While repairing *M*'s automobile, *S*, who was *M*'s chauffeur, was injured.
5. *Y*'s automobile liability policy included property damage coverage. *Y* placed crockery, valued at \$100 and belonging to *B*, in the automobile. *Y*'s automobile collided with a tree and the crockery was destroyed. What is the company's liability?
6. *T* purchased automobile bodily injury and property damage insurance with standard limits and \$500 medical payment coverage. Explain the company's liability for the following :
- (a) While attempting to alight from his automobile, *S* claimed that he was injured, but there was no proof. Upon the insurance company's refusal to defend *T*, he engaged an attorney. A judgment was rendered against *T* for \$5,100. *T* paid \$500 for legal services, \$10 interest, and \$50 for an appeal bond. In addition, as a result

of the accident, *T* was arrested. In order to obtain his release, *T* obtained a bail bond for which he paid \$10.

- (b) Because of the operation of *T*'s automobile, *B* was injured. *T* requested a doctor to give *B* first aid, for which *T* agreed to pay. The doctor charged \$25.
  - (c) *T*, who was required to appear as witness, claimed that he lost \$30 in wages for the time he spent in court.
  - (d) *T*'s automobile injured *C*. *T* made a settlement with *C* for \$100.
  - (e) *E* claimed he was hit by *T*'s automobile on January 10. *T* notified the insurance company on January 30.
  - (f) *F* was injured while stepping into *T*'s automobile. *F* paid \$50 for medical bills and sent the bills to *T*.
  - (g) As a result of an injury while *G* was in *T*'s automobile, *G* received \$150 as reimbursement for his medical services. Subsequently, *G* sued *T*. The lawyer representing *T* claimed that the medical payment was an admission of negligence on the part of *T*.
  - (h) *H* was injured by *T*'s negligent driving of his automobile. *H* commenced action against *T* and recovered judgment of \$4,500. After the entry of the judgment, *T* filed a petition of bankruptcy and *H* sued the insurance company.
  - (i) While driving *T*'s automobile, *T* injured *J*. *J* obtained a judgment for \$6,400. *T* carried insurance with limits of 5/10 for bodily injury.
  - (j) While *T* was driving *B*'s automobile, *K*, a guest, was injured. *K* claimed \$60 for his medical costs.
  - (k) *T* died on July 15. *L* was injured on July 31 because of negligent driving of the automobile by *B*, the executor of *T*'s estate.
  - (l) *T*, who owned an automobile, violated the motor vehicle law. As a result he was prohibited by the Bureau of Motor Vehicles from driving his automobile without obtaining a policy with limits of 10/20 for bodily injury. *T* thereupon obtained insurance. While driving his automobile, *D* was injured. During the course of defending the action, the insurance company was not able to obtain cooperation from *T*. As a result, *D* obtained a verdict of \$4,000.
7. (a) What information must be given by an applicant for automobile bodily injury and property damage insurance and medical reimbursement coverage?
- (b) Explain the purpose of the automobile comprehensive liability policy.
8. (a) Describe the coverage of the automobile fire and theft policy.
- (b) How can the stated amount policy be modified?
- (c) Discuss the company's liability if *X* insured his automobile (which cost \$2,500 when new) with: (1) actual cash value form; (2) stated amount for \$1,500 for comprehensive damage under the following conditions:

- (1) *X*'s automobile was damaged by fire. The value of the automobile at the time of the loss was \$1,800.
- (2) While *X*'s automobile was being transported on a vessel, collision of the vessel caused \$100 damage to *X*'s automobile.
- (3) While *X*'s automobile was being transported on the water, the vessel sank. The replacement value of the automobile was \$1,000.
- (4) During the evening, after *B*, an employee of *X*, had left his work, he stole *X*'s automobile. The replacement value of the automobile was \$750.
- (5) *X* sold the automobile to *N*, and received a check for \$850 on a bank in which *N* had no account. The replacement value of the automobile was \$750.
- (6) *B* stole automobile tools, valued at \$50, from the automobile.
- (7) *B* stole a tire, valued at \$75, and automobile repair equipment valued at \$50.
- (8) As a result of a strike, *X*'s automobile was demolished. The automobile had a replacement value of \$2,000 at the time of loss.
- (9) As a result of rising river water, *X*'s automobile was lost.
- (10) *X* left his automobile at the bank of a river. The tide rose and carried away the automobile.
- (11) *X* left his automobile in front of his home, and during the night the automobile was damaged by wind.
- (12) *X* left his automobile outside his home. A hailstorm occurred and damaged *X*'s automobile, causing him a \$250 loss.
- (13) What if, in the above problem, the damage had been caused by snow?
- (14) As a result of a large rock thrown at *X*'s automobile, windows in the doors and the headlight glass were broken. The amount of the window damage was \$50, and the headlight damage was \$10. In addition, there was \$250 damage to the other parts of the automobile.
- (15) *B*, an enemy of *X*'s, damaged *X*'s car by the use of a hatchet, causing \$100 loss.
- (16) *X* had a bottle of acid in his car. During a trip the bottle broke and damaged the automobile. *X* suffered a loss of \$50.
- (17) While on the road, *X*'s automobile broke down. The automobile was towed to a service station, for which service *X* was charged \$20.
- (18) *X*'s automobile was stolen. At the time of the theft, the automobile was used as a delivery conveyance.
- (19) The automobile was subject to a mortgage held by *B*. *X* sold the car to *C* without the consent of *B*. At the time the balance on the mortgage was \$400.

- (20) While *X* was visiting a friend, he left his automobile outside the friend's house. During the evening the engine froze.
  - (21) On a trip, fire broke out and damaged clothing valued at \$150 belonging to *X*, \$50 belonging to *X*'s son, and \$25 belonging to *C*, who was *X*'s chauffeur.
  - (22) *X*'s automobile was destroyed by fire. The investigator of the insurance company discovered that *X* was carrying drugs in the automobile at the time of the fire in violation of the law.
  - (23) A thief stole the radio which was attached to *X*'s automobile.
  - (24) *X*'s automobile was stolen. He failed to notify the police.
  - (25) *X*'s automobile was stolen. He offered a reward of \$100 to the person who found the car. *B* found the automobile, and *X* paid the reward of \$100 to *B*.
  - (26) On June 30, *X*'s automobile was stolen, and he immediately notified the police authorities. He hired another automobile, for which *X* paid \$20 a day. On July 20 the police authorities recovered the automobile. The value of *X*'s automobile was \$800.
  - (27) Suppose that, in the above problem, the insured automobile was a commercial automobile.
  - (28) *X*'s automobile was damaged by fire, and the loss amounted to \$100. *X* was unable to use the automobile for five days. A short time after the automobile was repaired, the automobile was stolen from the *C Public Garage*.
  - (29) Suppose that, in the above problem, *X* had agreed with *C* to give *C* the benefit of *X*'s insurance?
9. *Q* purchased an automobile collision policy. Analyze the company's liability under the following conditions:
- (a) Through negligence, *Q* drove his automobile into the side of a building, resulting in \$50 damage to the automobile.
  - (b) *Q* purchased a policy effective June 15, written with a convertible collision clause, and for it he paid \$100. The premium for full collision was \$160. On June 30, *Q*'s automobile was in a collision, causing \$200 damage.
  - (c) *Q*'s automobile was destroyed by fire.
  - (d) During a drive, two tires blew out, causing \$50 damage.
  - (e) *Q*'s automobile collided with an automobile truck. *Q* claimed \$150 for damage done to the automobile body and \$25 for damage to the tires.
  - (f) What if the policy had been written with the \$50 deductible clause?
10. (a) Compare the provisions of the automobile physical damage coverage and automobile liability coverage for newly acquired cars.
- (b) List the various provisions which are similar in the automobile physical damage policy and the fire insurance policy.
  - (c) What information must an applicant give in order to obtain an automobile physical damage insurance policy?

- (d) What are the provisions for automatic fire and theft coverage for automobile fleets?
11. *R* had a garage keeper's legal liability policy. Discuss the company's liability under the following conditions:
- C*'s automobile was destroyed by fire in *R*'s garage.
  - R*'s automobile was stolen by *B*, who was employed by *R* at the garage.
  - P*'s automobile was destroyed by the malicious action of *R*'s employees.
  - F*, an employee of *R*, delivered *N*'s car to his home. Before leaving the car, *F* stole tools valued at \$50 and robes valued at \$100.
  - B*, an employee of *R*, was testing a car belonging to *O* in connection with repairs that had been made. *O*'s automobile collided with another automobile, causing damage amounting to \$250.
  - As a result of a strike at *R*'s garage, *G*'s automobile, valued at \$1,500, was damaged.
12. *N* operated as an automobile dealer and also engaged in making automobile repairs. *N* purchased automobile liability and property damage insurance to cover his operations, with limits of 25/50 for bodily injury and \$5,000 for property damage.
- What is the company's liability for the following:
    - While *N*'s employee was repairing an automobile on the outside of *N*'s premises, *B* was injured.
    - While *N* was driving *N*'s automobile to visit his friends, *E* was injured.
    - Supposing that, in the above problem, *N* was insured as an operator of a service station.
    - N*'s automobile was used by his employee, *R*, to drive *C* to another city. *N* received \$50 for the services. While *B* was driving, *D* was injured by the automobile.
    - N*'s employee drove *C*, a customer, to his home, using an automobile belonging to *N*. During the course of driving, *C* was injured.
    - H* purchased polish from *N* to be used on *H*'s automobile. He claimed that he was injured, due to fumes from the polish, while he was polishing his automobile.
    - I*, who was *N*'s customer, was on the garage elevator. The elevator broke down and as a result *I* was injured.
    - K* purchased a tire from *N*. *S*, an employee of *N*, was transporting the tire to *K*'s home. While on the trip, *S* was involved in an accident and as a result the tire was damaged.
    - F*, a customer, slipped on some oil which was on the floor of the garage and suffered a broken arm.
    - While *T*, *N*'s employee, was repairing a customer's automobile on *N*'s automobile hoist, the hoist gave way and the automobile slipped off. Because of the accident, the automobile was

badly damaged, the owner of the automobile was injured, and *T* was also hurt.

- (11) While delivering a customer's automobile, *U*, an employee, injured *V*, another employee.
  - (b) What information must be given by an automobile dealer in order to obtain a garage liability policy?
  - (c) *C*'s automobile was damaged, and he left his automobile in *N*'s garage to be repaired. During the course of moving *C*'s automobile about the garage, the automobile was damaged, and as a result it required additional repairs amounting to \$200. What is the company's liability?
  - (d) Suppose that, in the above problem, the damage had been due to fire.
  - (e) *N*'s garage liability pay-roll policy was written subject to an endorsement covering damage to property in charge of *N*. *C*, who was *N*'s customer, drove his automobile to the garage. *C* had various packages of goods valued at \$250 in his automobile. Subsequently *B*, an employee of *N*, placed the material in *N*'s automobile and drove *C* home. While on the way to *C*'s home, the automobile collided with another automobile, causing \$150 damage to *C*'s goods. Discuss the company's liability.
13. (a) *F* had an automobile dealer's open damage policy. Discuss the company's liability under the following conditions:
- (1) *F* sold an automobile to *B*, subject to chattel mortgage. *B*'s automobile was stolen while in *F*'s garage.
  - (2) *F* had accepted ten automobiles on consignment. One automobile was stolen from *F*'s salesroom. The value of the automobile was \$1,500. *F* had made a payment of \$500 on account to the manufacturer.
  - (3) Five automobiles that belonged to *F* were lost while being transported on a railroad car which was on a car ferry.
  - (4) Fire damaged two automobiles belonging to *F* while the automobiles were being conveyed on a trailer to *F*'s salesroom.
  - (5) As a result of riot at *F*'s salesroom, various automobiles belonging to *F* were completely destroyed.
  - (6) *F* sold an automobile to *B*, and received a check for \$1,500 from *B*. The check, however, was returned by the bank as a forgery.
  - (7) *F* kept seven automobiles in an open lot. One of the automobiles was stolen.
  - (8) *F* found it necessary to change the position of several automobiles in his garage. Several of the automobiles were temporarily kept on the outside of the garage. During that time, one of the automobiles outside was stolen.
  - (9) *F* purchased an automobile for \$1,000. His selling price was \$1,250. The automobile was stolen from *F*'s premises.
  - (10) After *F*'s premises were closed, *C*, one of his employees, returned and stole two automobiles.

- (b) In connection with the automobile dealer's open property damage policy, explain the requirement for limit of liability at various locations.
  - (c) How is the premium determined for the automobile dealer's open policy?
  - (d) *F*'s policy included an open lot coverage. Several accessories were stolen from an automobile while in the open lot. The value of these accessories was \$160.
  - (e) Compare the principal provisions of the automobile dealer's open policy and automobile dealer's blanket policy.
  - (f) What are the principal provisions of the automobile dealer's open policy, passenger certificate form?
  - (g) What are the additional coverages available for the automobile dealer's open policy?
14. (a) Describe in detail the four classes of automobiles used to determine the premium charge for bodily injury and property damage liability.
- (b) Describe the factors which determine the premium charge for private passenger automobiles.
  - (c) *B*, who works as an outside salesman, was unable to state where his automobile would be principally garaged throughout the year. Explain the method that is used for determining the territory for *B*'s automobile.
  - (d) *C*, a plumber, altered his automobile by adding a box in order to carry various plumbing supplies. How would *C*'s automobile be classified?
  - (e) *A*, *B*, and *C* were employees who worked in *D*'s factory. *A* owned an automobile, and he made an arrangement with *B* and *C* to transport *B* and *C* to the factory. *B* and *C* paid *A* for the transportation. How would *A*'s automobile be classified?
  - (f) Describe the factors which determine the premium charge for commercial automobiles.
  - (g) *A*, a public truckman, operates between two cities which are 50 miles apart. The lowest rate quoted in the automobile manual in any given territory in which his truck operates is \$400 for bodily injury. The highest rate is \$600. Explain the basis for the premium charge.
  - (h) How can the premium be reduced for the above truckman?
  - (i) Indicate the basis for the premium charge for a local truckman if he uses one truck exclusively to carry goods for *B*, a manufacturer, who would be subject to a rate of \$350 were the truck owned by the manufacturer.
  - (j) Explain the basis for determining premiums for long-haul truckmen.
  - (k) Summarize the factors which determine the rate for public automobiles.

- (l) Describe the methods that may be used to insure garages for bodily injury and property damage liability.
  - (m) Outline the factors which determine the automobile collision charge.
  - (n) Summarize the factors which determine the premium charge for automobile fire, theft, and comprehensive insurance policies.
  - (o) Describe the various methods used to determine the rates for garage keepers' legal liabilities.
  - (p) Describe various plans used to rate automobile fleets.
  - (q) *A* owned a pleasure car for which he carried automobile bodily injury and property damage insurance. In connection with business, *A* occasionally drove a truck for *B*. What form of insurance should *A* and *B* obtain?
  - (r) Suppose that, in the above problem, *C*, who is *A*'s brother, also desires similar insurance.
  - (s) *A* does not own any automobile, but he uses *B*'s and *C*'s automobiles. Occasionally he uses other automobiles. The owners of the various automobiles that *A* uses do not carry any insurance. Describe the form of insurance *A* should obtain to protect himself against liability for bodily injury and property damage.
  - (t) *A* had a named non-owner's automobile liability policy with standard limits. While *A* was driving *B*'s truck, *A* injured *B*. Discuss the company's liability.
  - (u) Describe the forms that are available for hired automobiles.
  - (v) Explain the factors that determine the premium for employers' nonownership automobile liability insurance.
  - (w) How is the premium determined for medical payment coverage?
  - (x) *A*, who resided in Maine, purchased an automobile bodily injury and property damage liability policy on June 15. The company was notified by *A* that he desired to suspend his insurance on December 1. On January 1, *A* notified the company that he would again use his automobile on January 15. Discuss *A*'s rights to a return premium.
15. (a) Explain the purpose of statutory automobile insurance.
- (b) *M* owned a taxicab in a state which required statutory insurance, and he obtained an insurance policy to meet the statutory requirements. What other methods are available to *M* to meet these requirements?
  - (c) *M*, who owned a taxicab, obtained a statutory bodily injury and property damage liability policy. While *M* was driving his taxicab, *B* was injured. The insurance company requested cooperation in the investigation of the claim, and *M* refused. *B* obtained a judgment of \$1,000. Discuss the company's liability.
  - (d) What are the differences in the Massachusetts compulsory liability law, the Saskatchewan compulsory automobile liability law, and the New York financial responsibility law?

16. (a) Explain the purpose of the automobile assigned risk rating plan. How are the various risks distributed among the companies?
- (b) Discuss the rights of the applicant to the automobile assigned risk rating for the following:
- (1) *R* applied for a policy with bodily injury of limits of 10/20.
  - (2) *A*'s policy, issued by the *B Company*, expired on January 15, 1951. The *B Company* refused to renew the policy, and *A* applied to the manager of the bureau for insurance.
  - (3) *S* was refused insurance by the various companies in the state, due to the fact that he had violated the motor vehicle law by failing to stop and report an accident to the state motor vehicle bureau.
  - (4) *B* had failed to pay his premium for a policy which was issued on January 15, 1951. The policy was therefore canceled by the company for nonpayment. On March 20, 1951, he applied to the bureau for insurance.
  - (5) *T*'s application for insurance was rejected by the manager on January 20, 1951. He again applied to the manager on April 10, 1951.
  - (6) *C* was disabled, due to the loss of a leg in an automobile accident. Although he applied to several insurance companies for a policy, he was refused coverage by the various companies.
  - (7) *D* was refused insurance by the manager of the bureau. *D* was dissatisfied with the decision of the manager, and therefore appealed to the superintendent of insurance.
17. Describe the methods used to prevent losses in connection with the hazards involved in the operation of automobiles.

## CHAPTER 20

### AVIATION INSURANCE

**Aviation Legislation.**—Insurance companies have had experience in the underwriting of aviation risks since 1912. This experience, combined with the advance in technical knowledge since the early days of aviation, has enabled some insurance companies to prepare rates for the various risks which arise from the business of aviation. While insurance against various aerial hazards has been available from the earliest days of practical aircraft, it must be stated that aircraft insurance up to the present time has been one of preparation. The real development of aircraft insurance dates from the first World War which gave stimulus to the manufacture and use of aircraft.

**Classification of Policies for Aircraft Hull Coverage.**—As in other fields of insurance, aviation insurance policies have been developed to cover the hazards incident to the ownership and use of aircraft. Coverages for the hull may be obtained on all risk forms for losses due to various perils, including the following :

1. Fire, lightning, self-ignition, and explosion.
2. Transportation.
3. Tornado, cyclone, and windstorm.
4. Theft, robbery, and pilferage.
5. Land damage.
6. Crash.
7. Mooring (applicable to seaplanes and amphibians).

Under particular circumstances, the hull policy may be written for some of the above specified perils only, instead of on an all-risk basis. In addition to the hull coverage, public liability insurance is also available.

Miscellaneous coverages are also offered under the following forms :

1. Hangar keeper's legal liability.
2. Airport liability.
3. Personal accident.
4. Group accident.

**All-Risk Hull Policy.**—Coverage for the hull policy is available on the following bases :

1. All risk—ground only, excluding taxiing—subject to a percentage of the amount of insurance deductible from each loss except fire, lightning, explosion, theft, robbery, or vandalism.
2. All risks excluding crash—including “in flight” risks of fire, explosion, lightning, theft, robbery, or vandalism, excluding fire or explosion following crash—subject to a percentage of the amount of insurance deductible from each loss except fire, explosion, lightning, theft, robbery, or vandalism.
3. All risk including crash—subject to a percentage of the amount of insurance deductible from each loss except fire, explosion, lightning, theft, robbery, or vandalism, unless fire or explosion follows crash.
4. Fire, explosion, lightning, and transportation—named perils ground only, and fire and explosion in flight, excluding fire or explosion following crash.

Before the policy is issued, the insured must give information concerning the following :

1. The description of the aircraft; that is, CAA certificate number, make, model, year built, and insured value.
2. The purposes for which the aircraft is to be used :
  - (a) “Pleasure and business”—defined as personal pleasure, family, and business use, excluding any operation for which a charge is made.
  - (b) “Industrial aid”—defined as “pleasure and business” plus the transportation of executives, employees, guests, and customers, excluding any kind of operation for which a charge is made.
  - (c) “Commercial”—the broad form includes “industrial aid,” dual and solo student instruction, rental and passenger or cargo flights for hire. Various definitions such as “limited commercial,” “commercial excluding instruction,” “commercial ex instruction” are used to explain the exclusion of certain hazards, as for example, student instruction, rental or passenger carrying for hire, from the broad “commercial” coverage.
  - (d) Special uses, such as crop dusting or spraying, test flying, racing, banner towing, and aerial photography.
3. The name of the pilot or pilots who will operate the aircraft.
4. Whether the insured is the sole and unconditional owner of the aircraft. In the event there is a mortgage, a breach of warranties endorsement is available to protect the interest of the mortgagee in event the insured violates any of the policy conditions.

Aircraft includes engines, propellers, operating and navigation instruments, and radio equipment attached or usually attached to or carried on the aircraft. As some parts may be detached from the aircraft, the policy applies to loss sustained to component parts of the aircraft while detached, provided the parts have not been replaced in the aircraft.

The term "in flight" means that period of time during the actual take-off run of the aircraft and continuing thereafter until the aircraft has safely completed its landing run.

Disappearance is deemed a loss, under the flight provisions of the policy, if the aircraft is missing and not reported for 60 days after commencing flight.

The policy applies only while the aircraft is within the United States of America, its territories or possessions, Canada, Newfoundland, and the Republic of Mexico, or is being transported between ports of such countries. If broader geographical limits are required, such limits are provided by endorsement. Incidentally, the territory may include an area involving the possibility of forced landings, and the proposed area may be remote from a repair base or source of repair parts. Under such circumstances, the endorsement may provide a limitation on salvage and transportation costs.

**LIMIT OF LIABILITY.**—The limit of the company's liability for loss cannot exceed the actual cash value of the aircraft at the time of loss, nor what it would then cost to repair or replace the aircraft or parts with others of like kind and quality. In addition the amount of the loss cannot exceed the following:

1. In the case of total loss, the amount of the insurance on the aircraft less depreciation at the rate, if any, stipulated in the policy. The rate of depreciation used is generally 15% per year, with 20% on new aircraft not more than three years old. These rates may be affected after the third or fourth year because of new designs or other factors. When these rates of depreciation are not appropriate, special rates of depreciation can be provided by endorsement.
2. When repairs are made by the insured, in the case of partial loss, no depreciation is considered. The amount paid is the actual cost of any parts or materials necessary to effect repairs or replacement, plus 150% of the actual cost to the insured of labor without any further allowance for overhead or overtime. When the repairs are

made by any other than the insured, the actual costs will be paid as evidenced by bills rendered to the insured, less any discount granted to the insured, excluding cost of overtime unless previously agreed to by the company. The liability of the company for a partial loss cannot exceed the amount for which the company would be liable were the loss payable as a total loss. Furthermore, there can be no abandonment of any property to the company without the consent of the company.

The cost of transporting new or damaged parts, or of transporting the damaged aircraft to the place of repair and returning to place of accident or home airport, whichever be the nearer, will be limited to the least expensive method of reasonable transportation.

When a loss occurs, the insured must do the following :

1. Protect the aircraft, provided the insured is able to do so, and any further loss due to the insured's failure to protect will not be recoverable under the policy. Where the loss or damage suffered constitutes a claim under the policy, all reasonable expense incurred in affording this protection will be deemed a loss under the policy.
2. Give notice as soon as practicable to the company or any of its authorized agents and also, in the event of theft, larceny, robbery, or pilferage, to the police. The insured cannot offer or pay any reward for recovery of the aircraft.
3. File proof of loss with the company within 60 days after loss, unless the time is extended in writing by the company, in the form of a sworn statement of the insured, setting forth the interest of the insured and of all others in the property affected, any encumbrances on the aircraft, the actual cash value at the time of loss, the amount, place, time, and cause of the loss, and the description and amounts of all other insurance covering the property.

Upon the company's request, the insured must exhibit the damaged property to the company. He must submit to examination under oath by anyone designated by the company, and subscribe to the examination and produce for the company's examination all pertinent records and sales invoices, or certified copies if originals are lost, permitting copies to be made, all at such reasonable times and places as the company designates.

Upon the occurrence of any loss, the amount of insurance on the aircraft, the subject of the loss, will be reduced by the amount of the loss until repairs have been completed when, upon payment of an additional prorata premium, the amount of insurance will again attach as originally written.

Similar to other policies covering property, there are provisions concerning other insurance, appraisal, payment of loss, and subrogation.

EXCLUSIONS.—The policy does not cover any loss :

1. Due to
  - (a) War, whether or not declared, invasion, civil war, insurrection, rebellion or revolution, confiscation by duly constituted governmental or civil authority, riot or civil commotion.
  - (b) Conversion, embezzlement, or secretion by any person in lawful possession of the aircraft.
  - (c) Wear and tear, freezing, mechanical or electrical breakdown or failure, unless such loss is the result of other loss covered by the policy.
  - (d) Loss of use or depreciation.
2. To
  - (a) Tires, unless damaged by fire or stolen, or unless such loss be coincident with other loss for which the company would be liable in accordance with the terms of the policy.
  - (b) Robes, wearing apparel, or personal effects.
  - (c) Any aircraft described as a landplane which has been converted to any other type of aircraft.
3. While in flight, by or with the permission of the insured, during or as a result of its operation.
  - (a) In any manner requiring a special permit or waiver from the C.A.A., whether granted or not.
  - (b) In violation of any Federal regulation for civil aviation applying to aerobatics, instrument flying, minimum safe altitudes, repairs, alterations, or night flying which are considered extra hazardous.
  - (c) While performing, or attempting to perform, closed course racing, crop dusting, spraying, seeding, hunting, bird or fowl herding.
  - (d) By a pilot, in violation of his airman's certificate.
  - (e) For instructional purposes, unless such purposes are stated in the declarations.

EXTRA-HAZARDOUS RISKS.—The following types of risks present hazards which are considered unusual: crop dusting, special photographic missions, flying exhibitions, aerial explorations, test flights, and long flights over water. By endorsement, the hull policy for such risks may be issued, usually with special limitations which are stated in the policy contract.

OBSOLETE AND LOW-VALUED AIRCRAFT.—When an aircraft is obsolete, repair parts may have to be specially manufactured in order to complete the repair of the aircraft if damaged. Under such circumstances a limit is set for the repair or replacing of each of the major parts of the aircraft.

**SPECIAL FLIGHTS.**—Coverage can be arranged for a dealer in connection with a special flight, unless the flight involves an unusual hazard. This coverage is generally not granted to an aircraft owner, as there would normally be adverse selection against the company since requests might be made for insurance for hazardous flights only.

**HULL REPORTING FORM.**—An owner of aircraft may have occasion to buy or sell aircraft during the term of his policy. Under such circumstances, coverage is available which applies automatically to all aircraft purchased and until sold. Generally, this coverage is limited to an insured who owns five or more aircraft. The policy is written subject to a reporting clause, and the premium is based on a daily rate for each day an aircraft is owned by the insured. For the all risk coverage in flight, the rate may be based upon either a flying hour or daily rate basis. The insured is required to make a monthly report giving (1) the make of each aircraft, (2) license number, (3) value insured and (4) period the aircraft was at risk during the month. If the aircraft should be totally destroyed during the policy period, a full premium must be paid on the aircraft less any premiums which have been previously paid on the aircraft during the policy period. This latter requirement can be waived by paying a higher premium at the commencement of the policy period. The reporting policy is written subject to a limit of liability with respect to one aircraft.

**Hangarkeeper's Legal Liability Policy.**—The operator of a hangar or aircraft repair service is responsible as a bailee while an aircraft is on his premises, like a garage owner for automobiles while in his custody. Protection for legal liability is provided by a hangarkeeper's legal liability policy or by a hangarkeeper's legal liability endorsement attached to an airport liability policy.

Subject to a limit of liability for each accident and a deductible of \$50 for each claim except fire, the contract covers liability imposed by law for direct loss or damage to the aircraft which are the property of others and in the custody of the insured for storage, repair, or safekeeping, excluding:

- (a) Loss or damage to robes, wearing apparel, personal effects, or merchandise in any aircraft.
- (b) Aircraft owned by the insured, his family, employees, and if insured is a corporation, by an officer thereof or his family.
- (c) Loss or damage to aircraft away from premises declared.
- (d) Loss or damage to any aircraft "in flight."

From the standpoint of location, aircraft are covered while (a) on the premises of the insured; (b) while temporarily removed from his

premises for testing or repairs by the insured ; (c) while being called for or delivered in accordance with contract.

**Aircraft Liability Policy.**—This policy, which is similar to the automobile liability policy, provides protection against bodily injury, passenger liability, and property damage. The policy can be issued with the following coverages and limits of liability :

1. A single limit—covering bodily injury, including passengers, and property damage liability for each occurrence.
2. A single limit—covering bodily injury, excluding passengers, and property damage liability for each occurrence.
3. Bodily injury liability excluding passengers, with a limit for each person injured or killed arising out of the ownership, maintenance, or use of the aircraft, subject to a maximum limit of liability for each occurrence for all persons injured or killed.
4. Passenger bodily injury liability with a limit for each passenger injured or killed arising out of the ownership, maintenance, or use of the aircraft, subject to a maximum limit of liability for each occurrence for all passengers injured or killed.
5. Property damage liability with a limit for injury to or destruction of property arising out of the ownership, maintenance, or use of the aircraft.
6. Medical payments—available with passenger bodily injury liability for “pleasure and business” or “industrial aid” risks, like the medical payments coverage available for automobile liability insurance.

The term “passenger” means any person or persons while in, entering, or leaving the aircraft, other than the pilot, copilot, or members of the crew while in the course of their employment by the insured. The term “occurrence” means an accident, or a continuous or repeated exposure to conditions which results in injury during the policy period, provided the injury is accidentally caused. All damage arising out of the exposure to substantially the same general conditions will be considered as arising out of one occurrence.

The issuance of the policy depends upon the following declarations made by the insured :

1. Where the aircraft will usually be based.
2. Description of the aircraft, that is, the C.A.A. certificate number, make and model number, year built, and seating capacity.
3. The purposes for which the aircraft is to be used, as in the hull policy.
4. Whether the named insured is the sole owner of the aircraft, except

with respect to conditional sale, bailment lease, mortgage, or other encumbrance.

5. Whether, during the past year, any insurer has canceled, declined, or refused to renew any aircraft liability insurance to the named insured.

The following provisions of the aircraft liability policy are similar to the provisions of the automobile bodily injury and property damage liability policy discussed in Chapter 19.

1. Defense, settlement, supplementary payments.
2. Definition of insured, that is, the named insured, and also any person while using or riding in the aircraft, and any person or organization legally responsible for its use, provided the actual use is with the permission of the named insured. The definition does not apply to any of the following:
  - (a) Any person or organization with respect to bodily injury or death of any person who is a named insured.
  - (b) Any employee of an insured with respect to any action brought against an employee because of bodily injury to or death of another employee of the same insured injured in the course of the employment in an occurrence arising out of the maintenance or use of the aircraft in the business of the insured.
  - (c) Any person or organization, or any agent or employee of the agent (other than agents or employees of the named insured), engaged in the manufacturing of aircraft, aircraft engines, or aircraft accessories, or operating an aircraft repair shop, airport, hangar, aircraft sales agency, or flying school, with respect to any occurrence arising out of the manufacture or the operation of the aircraft.
  - (d) Any person receiving dual or solo instruction, or a renter pilot.
3. Automatic insurance for newly acquired aircraft, that is, if the named insured, who is the owner of the aircraft, acquires ownership of another aircraft and so notifies the company within 30 days following the date of its delivery to him, insurance which is afforded by the policy applies also to the new aircraft as of the delivery date:
  - (a) If the new aircraft replaces an aircraft described in the policy, but only to the extent that the insurance is applicable to the replaced aircraft.
  - (b) If the new aircraft is an additional aircraft, and if the company insures all aircraft owned by the named insured at the delivery date, but only to the extent that the insurance is applicable to all the previously owned aircraft.

The named insured must pay any additional premium required because of the application of the insurance to the newly acquired aircraft.

4. **Temporary use of substitute aircraft, that is, while an aircraft owned by the named insured is withdrawn from normal use because of its breakdown, repair, servicing, loss, or destruction, the insurance afforded by the policy with respect to the aircraft applies with respect to another aircraft not so owned while temporarily used as the substitute for the aircraft. However, the insuring agreement does not cover, as an insured, the owner of the substitute aircraft or any employee of the owner.**
5. **Use of other aircraft. The insurance afforded by the policy with respect to the aircraft applies to the named insured, if an individual and the owner of the aircraft with respect to the operation of any other aircraft by the named insured in the other aircraft. This provision does not apply under the following conditions :**
  - (a) **To any aircraft owned in full or in part by, licensed in the name of, hired as part of a frequent use of hired aircraft by, or furnished for regular use to the named insured or a member of his household.**
  - (b) **To any aircraft which is used for any purpose other than private business and pleasure.**
  - (c) **To any aircraft whose seating capacity, excluding the crew, is greater than twice the seating capacity of the aircraft described in the policy.**
6. **Assault and battery will be deemed an occurrence unless committed by or at the direction of the insured.**

The territorial coverage is somewhat like the aircraft hull policy, that is, within the United States of America, its territories or possessions, Canada, and also the Republic of Mexico, or if dismantled and being transported between ports of such countries, and is owned, maintained and used for the purposes stated in the policy declarations.

As in the automobile liability policy there are provisions referring to notice of occurrence, notice of claim or suit, assistance and cooperation of the insured, action against the company, bankruptcy or insolvency of the insured, other insurance, excess insurance over any other valid and collectible insurance available to the insured, and subrogation.

**EXCLUSIONS.**—The aircraft liability policy does not apply to any of the following :

1. **Bodily injury to or death of any employee of the insured while engaged in the duties of his employment, or to any obligation for which the insured or any company as his insurer may be held liable under any workmen's compensation law.**
2. **Liability assumed by the insured under any contract or agreement.**

3. While, with the consent and knowledge of the named insured (a) the aircraft is operated in violation of its airworthiness certificate or is operated by any person in violation of the terms of his Civil Aeronautics Administration pilot's certificate (other than taxiing); (b) the aircraft is being operated in violation of the regulation of the Civil Aeronautics Administration applying to repairs, alterations, and inspection; or (c) the aircraft is being operated in any flying in respect to which a waiver issued by the Civil Aeronautics Administration is required, whether granted or not, unless the policy is specifically endorsed to include the flying.
4. Injury to or destruction of property owned, rented, occupied, or used by, or in the care, custody, or control of the insured, or carried in or on any aircraft of the insured.

**ADMITTED LIABILITY.**—An industrial concern which operates its own aircraft may have occasion to transport guests. The concern may desire to protect these guests in case of accident, regardless of negligence. Admitted liability insurance is available for this purpose by endorsement to the bodily injury liability coverage. The admitted liability coverage is sometimes called “guest voluntary settlement liability.” Incidentally, the owner can carry a blanket accident policy for employees while occupants of the aircraft for this purpose as explained subsequently.

The admitted liability endorsement provides for the following:

1. Liability is subject to a schedule of benefits for death and dismemberment, provided the bodily injury results directly and independently of all other causes within 90 days from the date of the accident in any one of the losses specified in the schedule of benefits.
2. The company is liable, subject to the limits stated in the endorsement for the particular type of injury sustained by a passenger, whether or not the insured is legally liable for the claim.
3. The injured passenger or any persons claiming through him must execute a full release for all claims of damages against the insured.
4. The term “passenger” includes any employee of the insured, whether or not the injury is sustained while the employee is engaged in the employment of the insured. If the employee is injured, the company will not require any release from the injured in respect to his claim under any workmen's compensation law.
5. There is a maximum amount of liability in any one accident which is determined by multiplying the limit per person by the number of passengers and the crew, if insured, for which the plane is permitted by certificate to carry regardless of the number of injured passengers.

6. The endorsement does not apply to the members of the crew of any aircraft covered by the policy unless endorsed to include.

**LAY-UP.**—A return premium will be allowed under the liability policy if the aircraft is laid up for not less than 90 consecutive days. The maximum return premium allowed is for a period of 180 days. A credit of 25% of the prorata premium for the permissible days of lay-up is applied against the renewal premium of the policy. If the policy is not renewed, however, the return premium will be calculated on a short-rate basis for the number of days of lay-up.

**EXTRA-HAZARDOUS RISKS.**—As explained previously, risks such as crop dusting, test flights, and racing are considered extra-hazardous risks. When liability insurance is issued for such risks, the policy may be issued subject to special restrictions, exclusions, or limitations.

**DELIVERY FLIGHT AND OTHER SPECIAL FLIGHT COVERAGES.**—Liability insurance is available for delivery and special flights similar to hull insurance.

**NAMING OF PILOT.**—Like hull insurance, the aircraft liability policy names pilots when the aircraft are of a type which require "know how," when extra hazardous risks are covered, or when limits of liability are high. A clause permitting properly certificated pilots who have logged certain minimum numbers of pilot hours is sometimes substituted for named pilots.

**NONOWNERSHIP.**—This coverage is written in two forms. The first form covers a named pilot as respects his operating a certain limited class of aircraft so set by his experience and capabilities. The coverage can be endorsed to cover his employer if the latter is not the owner of the used aircraft, but otherwise the policy provides coverage only as respects the named pilot insured.

The second form is corporation nonownership form and applies in the same manner with respect to aircraft as nonownership automobile liability applies to automobiles. Executive officers are covered while acting within the scope of their duties, but employees are not covered nor are any other persons unless specifically named. Only aircraft certificated to carry passengers for hire are covered, excluding rotary-wing or helicopters. Passenger liability, unlike owned aircraft liability policies, is included under bodily injury.

Premiums for corporation nonownership are rated according to number of pilot employees, number of branch offices, use of nonowned aircraft in the past and contemplated use in the future.

**AIRCRAFT LIABILITY REPORTING FORM.**—As in hull insurance, aircraft owners such as dealers, student instruction organizations, and charter operators can obtain a liability policy providing automatic reporting coverage for any new aircraft they may purchase, and pay a premium only while the aircraft is in the insured's possession. The general provisions of the endorsement are similar to the reporting hull form.

Methods available for determining the liability premium on the reporting form include the following:

1. The number of hours each aircraft is flown.
2. The number of days each aircraft is flown.
3. Passenger hour charge.
4. Flat hourly rate for all coverages.
5. Daily charge basis.

**Airport Liability Policy.**—This policy provides protection for bodily injury and property damage liability in connection with the operation of an airport. As in the aircraft liability policy, coverage can be obtained for (1) bodily injury liability with a limit for each person in any accident and a total limit for any number of persons injured in any accident, and (2) property damage liability with a limit for each accident.

The policy is issued subject to the following declarations:

1. Premises covered and purpose of use.
2. Whether the insured is conducting any other operations at the insured location or any other location.
3. Whether the insured occupies the entire premises.
4. Whether, during the past three years, any insurer has canceled, declined, or refused to renew any liability insurance to the named insured, except as stated.
5. Whether the insured's interest in the premises is that of owner or general lessee or tenant.

The term "insured" includes the named insured and also any partner, executive officer, director, or stockholder while acting within the scope of his duties as such.

Under the policy there is no liability for loss due to any of the following:

1. (a) The existence, maintenance, or use of any aircraft owned by, hired by or for, or loaned to the insured.
- (b) Any aircraft in flight by or for the account of the insured.

2. Injury to or destruction of property owned, rented, occupied or used by or in the care, custody, or control of the insured.
3. Bodily injury to or death of any employee of the insured while engaged in the business of the insured, or any obligation for which the insured, or any company as his insurer, may be held liable under any workmen's compensation law.
4. (a) The holding over and about the premises of air meets or aerial demonstrations of any nature for which an admission charge or an automobile parking charge is made, or the collapse of or any defect in any grandstand or seating structure erected in connection with the meet or demonstration.  
(b) Liability assumed by the insured under any contract or agreement.

The operator of the airport may be engaged in various other activities. There are certain activities which would not be covered by the policy. There is no coverage for the ownership, maintenance, or use of the following away from the insured premises: (1) watercraft, (2) dogs, (3) signs, and (4) machinery, equipment or other property rented to or located for use by others away from the premises, or operations in connection with such property.

As part of the premium is determined upon remuneration, the insured must maintain records necessary to calculate the premium computation. The word "remuneration" means the entire remuneration earned during any annual period by all employees of the named insured. The remuneration of each executive officer, partner, or proprietor is fixed at \$2,000 per annum, regardless of the actual remuneration.

The company must be permitted to inspect the premises, operations, and elevators, and to examine and audit the insured's books and records at any time during the policy period and within one year after the final termination of the policy, as far as they relate to the premium bases of the policy. The word "premises" means the premises designated in the declarations, including buildings, structures, and improvements and the ways immediately adjoining. Assault and battery will be deemed an accident unless such actions shall have been committed by or at the direction of the insured.

The operator of an airport may engage in various services, such as operating restaurants and lunch rooms and selling parts and gasoline. Under such circumstances he may be held responsible for the products hazard. For example, the operator may repair an aircraft. If the work is done improperly, an accident may occur, causing destruction to the aircraft or injury or death to the passengers. As another illustration, an employee may improperly refuel an aircraft, causing the aircraft to be wrecked. In view of the fact that there may be consumption of some products which are sold at the airport and consumed away from the

airport, the policy provides, as do other products liability policies, that if goods or products from one prepared or acquired lot produce bodily injury to or death of more than one person or damage to or destruction of more than one thing after the named insured has relinquished possession of the thing to others and away from the premises owned, rented, or controlled by the named insured, all bodily injuries and deaths or damage to or destruction of property proceeding from the common cause will be considered as arising out of one accident.

As in the aircraft liability policies, there are provisions referring to defense, settlement, and supplementary payments, notice of accident, notice of claim or suit, assistance and cooperation of the insured, action against the company, other insurance, subrogation, assignment, and cancellation.

The following additional coverages are also available for the airport operator :

1. Contractual liability. As in other business concerns, the operator of an airport may enter into an agreement with a concern such as a railroad, holding the railroad harmless for accidents. By endorsement, the contractual liability exclusion of the airport liability policy can be eliminated.
2. Construction and alteration. The basic airport liability does not provide liability coverage for new construction and alteration work. However, by endorsement, coverage for such work is available.

**Air-Meet Liability.**—As stated above, the airport liability policy excludes liability for accidents occurring during air meets or aerial exhibitions for which an admission charge is made. The reason for this exclusion is that the hazards during air meets and aerial exhibitions are much greater than those usually encountered in connection with the operation of an airport. Factors which increase the exposure are : (1) (a) aerobatic flying over large crowds, (b) closed course racing with one leg of the course parallel to the grandstands or the assembled crowd. The aircraft may fly at low altitudes and at high speeds. (2) Large crowds of spectators may be assembled at such events, and there is the possibility of grandstand collapse.

Coverage for air meets and aerial exhibitions can be obtained by endorsement to the airport liability policy.

**Aviation Personal Accident Insurance.**—With the development of the use of aircraft, special aviation personal accident policies have been developed. These policies can be divided into three groups : (1) passengers, (2) pilots, and (3) employees of industrial companies using aircraft. The benefits provided by the policies are comparable to the benefits of other accident policies as will be explained in Chapter 21, that is,

coverage can be obtained for death benefits, dismemberment benefits, weekly benefits, and medical expense benefits.

1. Passengers. The following coverages are available for passengers:
  - (a) Broad form, that is, accident, while riding anywhere in the world as a passenger in, or boarding or alighting from
    - (1) a licensed passenger aircraft provided by a regularly established airline on any regular, special, or chartered trip, and operated by a properly licensed pilot;
    - (2) any aircraft being operated as part of a military airline. [A military airline is defined as the Air Transport Command (ATC) and the Naval Air Transport Service Command (NATS) of the United States of America, and any similar airline operated by the military authorities of the recognized government of any nation anywhere in the world];
    - (3) any powered aircraft having a valid Airworthiness Certificate and operated by a properly licensed pilot. (Airworthiness Certificate is defined as an (N.) Standard Certificate issued by the Civil Aeronautics Authority of the United States of America, or any similar certificates issued by the jurisdictional agency or authority of the recognized government of any nation anywhere in the world.)
  - (b) Another form is similar to the broad passenger form, except that there is no coverage while the insured is a passenger in any aircraft
    - (1) owned or operated by the insured or any member of the insured's household;
    - (2) owned or operated by the employer of the insured.Under the above passenger forms, there is no coverage for accidents while the plane is used for crop dusting, spraying, seeding, fire-fighting, skywriting, pipeline inspection, aerial photography, explosion, racing, endurance tests, or exhibition stunt flying.
  - (c) World-wide coverage is provided, limited to accident, while riding as a passenger in or boarding or alighting from a licensed passenger aircraft provided by a regularly established airline on any regular special or chartered trip and operated by a properly licensed pilot.
  - (d) Trip coverage, that is insurance for short trips from one day to one month.

In addition to coverage for accident while on the airplane, the various forms provide against loss to the insured

- (1) in consequence of making a parachute jump from the aircraft for the purpose of saving his life;

- (2) in consequence of being struck by an aircraft;
  - (3) if solely as a result of an accident covered by the policy, the insured is unavoidably exposed to the elements and within 90 days of the accident as a result of the exposure, suffers a loss. If within one year from the date of the accident the body of the insured has not been found, the presumption will be made that the insured has suffered loss of life from bodily injuries effected solely through accidental means.
2. Pilots. The following types of policies are available for private and commercial pilots:
- (a) Coverage similar to the broad passenger form. However, coverage with respect to pilotage is limited to aircraft of U.S. registry bearing valid airworthiness designations of "NC" or "N" standard.
  - (b) Special risks. The various policies previously described do not include special hazards such as production lines, experimental planes, endurance tests, and forestry service. Limited accident policies are available covering pilots while operating a plane in connection with such special hazards.
3. Industrial concerns. An employer may desire to give his employees additional protection against accident while flying on the employer's business. Although the employees may be protected by a compensation law, two forms of policies available for this purpose are (a) group and (b) blanket.

Under the group policy, the name of each employee to be insured must be stated in the policy, whereas under the blanket policy all employees are covered without listing names for the benefits provided in the policy. Coverage may also be provided under the group policy for other employees whose names and limits of liability, prior to any flight, are mailed or telegraphed to the company. Insurance is available for death benefits, dismemberment benefits, weekly indemnity, and medical expenses as in other accident policies.

In case of loss, the company or its representatives must be permitted to investigate all circumstances surrounding each accident. If the company agrees in writing that the injury or death suffered comes within the provisions of the policy, the insured may then pay the amount of the benefit to the injured person or any relative of the deceased person or any person appearing to the insured to be equitably entitled to the benefit, and the company must indemnify the insured for the amount so paid within seven days after receipt by the company of proper evidence of payment. Payment made by the insured prior to the completion of the company's investigation does not prejudice the employer's rights of

recovery, nor does payment commit the company to any liability. The insured alone assumes responsibility for the proper distribution of any amount paid by the insured and for which claim for indemnity is made.

Since many employees may be involved in one accident, the policy provides that the company's aggregate limit of liability with respect to all employees while in any one aircraft cannot exceed a stipulated amount. If the total of the individual limits of liability with respect to all insured persons while in any one aircraft exceeds the aggregate limit of liability, then the amount applicable to each insured employee must be reduced proportionately to effect a proportionate distribution of the aggregate limit.

The premium charge for business flying can be based upon a percentage of fares, including taxes that are charged for air transportation to the employees. If no definite fare is charged, a rate will be agreed upon for each mile of travel. If the premium is based on fares or mileage within a reasonable time following the completion of each month during the policy period, the insured must report the total amount of airline fares expended on behalf of the insured persons or mileage and, at the time of the report, pay an earned premium based upon the rate of such fares or mileage.

Additional methods that can be used to determine the premium for group and blanket insurance are as follows :

1. A flat rate for each employee.
2. Flying-hour basis.

The company must be permitted to examine the insured's records relating to the policy at any reasonable time, and from time to time, until two years after expiration of the policy or until final adjustment and settlement of all claims, whichever is the later.

While the business accident policies cover accidents due to aircraft to employees while flying on the insured's business, the group policy can be endorsed to include travel on the insured's business while the employee is on any common carrier.

**INDUSTRIAL AID PLANS.**—As stated previously, a business concern that desires to cover its guests and employees while on business trips against accident, regardless of legal liability, can also obtain insurance through the admitted liability endorsement of the liability policy. Similar protection is also available by a separate accident policy for the stipulated benefits.

## QUESTIONS AND PROBLEMS

1. What forms of coverage are available for aviation insurance?
2. *M* owned an aircraft which he insured for \$5,000. Analyze the company's liability under the various hull forms for the following:
  - (a) While *M*'s aircraft was being transported, the conveyance containing the aircraft collided with a truck, damaging the aircraft. The amount of the loss was \$1,000.
  - (b) *M*'s aircraft was destroyed by fire after a crash.
  - (c) While in flight, *M*'s aircraft was damaged as a result of a wind-storm.
  - (d) While taxiing in order to pick up gasoline, the aircraft collided with another plane, causing \$1,000 damage.
  - (e) During the course of the flight, *M*'s aircraft crashed into a field. Explosion ensued, completely destroying the aircraft.
  - (f) While being taxied, the plane collided with another aircraft, causing \$1,000 damage.
  - (g) While starting the engine of the aircraft in the hangar, the aircraft was damaged to the extent of \$1,500.
  - (h) Due to fire while the aircraft was in flight, *M* claimed the loss of the following: instruments, radio equipment, robes, and personal effects.
    - (i) The engine of *M*'s airplane had been removed for the purpose of repair. The engine was damaged by windstorm.
    - (j) After making various efforts to locate his aircraft, which had disappeared, *M* finally decided that the airplane had been stolen.
    - (k) *M*'s airplane was damaged by a crash in Mexico. The crash occurred at a distance of 220 miles from the United States-Mexican border.
      - (l) In a collision with another aircraft, *M* suffered a loss of \$900. Repairs were made for which *M* paid the following: \$400 for new material, \$300 for labor charges at regular hourly rates, and \$200 for overtime.
    - (m) Suppose that, in the above problem, repairs were made for *M* by *B*. *B* gave *M* the following bills: material, \$500; labor at regular hourly rates, \$400; and \$200 for overtime.
    - (n) After a partial loss due to fire, *M* abandoned his aircraft.
    - (o) *M*'s aircraft was stolen. He notified the police one week after the loss. The aircraft was recovered. *M* discovered that several parts of his aircraft had been stolen. *M* paid a reward of \$150 for the return of these parts.
    - (p) *M*'s aircraft was destroyed by rioters.
    - (q) Due to a structural defect, *M*'s aircraft fell and burst into flames.
    - (r) *M* permitted his employee, *B*, to operate *M*'s airplane. *B* sold the plane to *C*. The plane was recovered in a damaged condition. *M* spent \$500 for repairs.

- (s) *M* engaged his aircraft in a race with another aircraft. During the race, *M*'s plane crashed, resulting in \$2,000 damage to the plane.
3. (a) Compare the provisions of the aircraft hull policy and the fire insurance policy as respects the following: filing proof of loss, reduction of insurance after loss, other insurance, appraisal, payment of loss, and subrogation.
- (b) Describe the essential information contained in an application for aviation hull coverage.
- (c) Under what circumstances is a limit placed on salvage and transportation costs?
- (d) Explain the underwriting practice as respects the following risks: obsolete aircraft, crop dusting, delivery flights.
- (e) *R* owned ten airplanes. Describe the method that can be used to insure these various aircraft.
- (f) *R* insured ten aircraft under a hull reporting form on January 10, 1951. On April 15, 1951, one of the aircraft was stolen. How is the earned premium determined?
4. *X* operated a hangar and purchased a hangar keeper's legal liability policy. Discuss the company's liability for the following:
- (a) *B* placed his aircraft in the hangar. Through *X*'s negligence, a fire occurred, destroying *B*'s aircraft.
- (b) *C*'s aircraft was temporarily outside *X*'s hangar and at an approximate distance of 400 feet from the hangar. *C*'s aircraft was destroyed by a tornado.
- (c) Suppose that, in the above problem, the aircraft was owned by *X*'s son.
5. (a) What information must an applicant for aircraft liability insurance give to the insurance company?
- (b) State the important provisions in the aircraft liability policy that are similar to the automobile liability policy, and those provisions which are different.
- (c) *Q*'s aircraft public liability policy, 100/300 limits, included liability for passengers. Discuss the company's liability for the following:
- (1) As a result of an accident due to the negligence of *Q*'s employee, two passengers and a member of the crew were injured.
- (2) *Q* permitted *B*, a friend and pilot, to operate his aircraft. While attempting to land the aircraft, *B* was negligent, and he injured *M*. *M* obtained a judgment against *Q* for \$35,000.
- (3) *Q* rented the aircraft to *B*. While attempting to land, *B* injured *C*, who commenced suit against *Q* for \$10,000.
- (d) What is the purpose of the admitted liability endorsement? Outline the provisions of this endorsement.
- (e) *Q*'s liability policy was subject to an admitted liability endorsement.

Discuss the company's liability for the following:

- (1) As a result of an accident to *Q*'s airplane, *B* was injured on January 17 and died on October 10 from the accident.
  - (2) *C* suffered an injury while in *Q*'s airplane. *C* claimed the accident was due to the negligence of *E*, the pilot. *C* was offered \$2,500, the amount provided by the endorsement. However, *C* was requested to sign a release. *C* refused to sign the necessary papers.
  - (3) *D*, an employee of *Q*, received \$1,000 because of an injury and, in addition, *D* filed a claim for workmen's compensation benefit.
  - (4) *B* was employed as *Q*'s pilot. *B* was injured in an airplane accident.
6. (a) Compare the provisions of employee's nonownership and individual nonownership rules for aviation insurance and automobile insurance.
- (b) Describe the methods that can be used for determining the premium for the aircraft liability reporting form.
7. (a) What is the purpose of the airport liability policy?
- (b) What declarations must be made by the applicant for airport liability insurance?
- (c) *T* had an airport liability policy. Explain the company's liability for the following:
- (1) *T* hired an airplane from *B*. Due to *T*'s negligence, the plane was damaged.
  - (2) While moving *C*'s airplane at the airport, an employee damaged *C*'s plane.
  - (3) *T*'s automobile was used to transport gasoline at the airport. While driving the automobile, *D* was injured.
  - (4) During an air meet for which an admission of \$1.50 per person was charged, *T*'s negligence caused the destruction of *P*'s and *O*'s airplanes. *P* and *O* sued *T* for \$4,000 and \$6,000, respectively.
  - (5) *E*, an employee, repaired *R*'s aircraft. The aircraft was lost by a crash. *R* claimed that the repairs were not properly made.
  - (6) *T* made an arrangement with the *S Railroad* for the use of a sidetrack. *T* and *S* agreed that the railroad was not to be held liable for negligence in connection with the use of this sidetrack. *F* was injured by a freight car on the sidetrack.
- (d) How is the premium determined for the airport liability policy?
8. (a) Explain the company's liability for accidents under the various aviation accident forms in connection with the following:
- (1) *N* was injured while alighting from a licensed aircraft in Havana.
  - (2) Due to a crash, *C* was killed while piloting his private airplane.

- (3) *E* was injured while using his plane for crop dusting.
  - (4) In order to save his life, *D* used a parachute and was injured during the course of landing.
  - (5) While *F* was at an airport, he was struck by an airplane.
  - (6) *G* was injured in an airplane. The airplane was forced to land, and two days elapsed before any help arrived. As a result, *G* was exposed to the elements. Ordinarily, *G* would have recovered within one month from the date of the accident. However, because of the exposure, *G* was unable to return to work for six months.
  - (7) While *I* was in an airplane, the plane crashed. *I*'s body was not found.
- (b) Compare the coverages available for passengers and pilots.
- (c) *N* had a group accident aviation insurance policy. Officers and employees were insured for \$10,000 each, with limit of \$25,000. Analyze the company's liability under the following circumstances:
- (1) One of *N*'s employees was accidentally injured while in an aircraft. The employee was paid \$1,000 for hospital and medical benefits, in addition to workmen's compensation benefits by the employer.
  - (2) *B*, an employee, took several customers of *N* on a pleasure flight. While attempting to land, *B* and the guests were injured.
  - (3) *C*, an employee, was injured in an airplane accident on January 8, and died on January 9. *N* paid the amount stated in the policy to *C*'s widow. The company denied liability.
  - (4) *B*, an employee, was killed during the course of an airplane flight. *N* paid \$5,000 to *B*'s widow on June 10. This amount was in accordance with the terms of the policy. *B*'s parents claimed the money.
  - (5) As a result of a crash, six of *N*'s employees were killed in an airplane accident.
  - (6) *J*, an employee, was injured while riding on the *K Railroad*.
9. (a) What is the difference between the group and blanket industrial accident policies?
- (b) What methods are available for guest accident coverage to industrial concerns?

## CHAPTER 21

### ACCIDENT AND HEALTH INSURANCE

**Purpose.**—Life insurance protects a man's dependents after his death, but the suffering and financial hardship resulting from his inability to earn a living may be greater than those after his death. Medical expenses are frequently high, and the incapacitated person is often an additional drain upon the resources of the family. Losses owing to accidents and disease have reached such proportions as to create a major problem to be solved by community effort. Accident and health insurance policies, usually written on a yearly basis and less frequently for shorter periods, are provided to meet this need.

**Benefit Provisions.**—While no complete uniformity exists in the benefit provisions of policies offered by various companies, certain uniform classifications are employed for rate-making purposes. Furthermore, certain standard provisions must, in compliance with law, appear in these policies.

The various accident policies may provide benefits for all or some of the following :

1. Indemnity for death and dismemberment.
2. Indemnity for total and partial disability.
3. Optional indemnity, that is, a specified amount available to the insured at his election regardless of the number of weeks of disability.
4. Double indemnity for specified causes.
5. Nondisabling injuries.
6. Surgical operations.
7. Hospital expenses.
8. Nurse expense.
9. Payment for identification after accident.

Inasmuch as companies do not offer similar policies, the following important forms of several companies have been selected for discussion :

1. Accident coverage plus reimbursement for medical, surgical, nurse, and hospital costs.
2. Accidental death and dismemberment plus reimbursement for medical, surgical, nurse, and hospital costs.
3. Health coverage—nonconfinement.

4. Health coverage—confinement.
5. Sickness expense coverage.

In addition, the following policies will also be discussed :

1. Limited automobile accident.
2. Noncancellable accident and health.
3. Group accident and health.
4. Hospitalization—The Blue Cross Plan.

### Accident Coverage

**Provisions of Accident Form.**—The accident form provides indemnity for loss of life, limbs, sight, speech, hearing, or time resulting from accidental bodily injury, fatal or nonfatal, as specified in the following schedules :

**SCHEDULE I: INDEMNITY FOR DEATH, DISMEMBERMENT, LOSS OF SIGHT, SPEECH, AND HEARING.**—If the injury continuously and totally disables the insured at any time within two weeks from the accident, the company will pay the sum stipulated in the policy for the accidents listed below. Death, dismemberment, loss of sight, speech, or hearing must occur within 200 weeks from the date of accident. Furthermore, the company is liable for the stipulated amount, when the injury, irrespective of total disability, directly results in the specific loss within 180 days from the time of the accident.

In the event of death, an amount designated as the principal sum named in the policy will be paid. For dismemberment, the following number of weeks of benefit will be paid :

For loss of:

Both hands or both feet or sight of both eyes . . . . .	200 weeks
One hand and one foot . . . . .	200 weeks
Either hand or foot and sight of one eye . . . . .	200 weeks
Speech and hearing . . . . .	200 weeks
One leg or one arm . . . . .	133 weeks
Either hand or foot . . . . .	100 weeks
Speech or hearing . . . . .	100 weeks
Sight of one eye . . . . .	100 weeks
Thumb and index finger of either hand . . . . .	66 weeks
Permanent stiff or rigid joints of one elbow and one knee . . . . .	40 weeks
Permanent stiff or rigid elbow or knee joint . . . . .	20 weeks

“Loss” means, with regard to hands and feet, actual severance through or above wrist or ankle joint ; with regard to eyes, entire and irrecoverable loss of sight ; with regard to leg or arm, actual severance through or above knee or elbow joint ; with regard to speech and hearing, entire and irrecoverable ; with regard to thumb and index finger, actual severance through or above metacarpophalangeal joints.

If the loss can be assigned to more than one class, then the greater amount named under specific losses is payable for injuries resulting from the accident.

In the event of loss of both hands or of both feet or the sight of both eyes, as described above, the insured can elect, in writing, the weekly indemnity as long as the insured is alive, in lieu of the specific indemnity. The election must be made within 90 days after the loss.

*Specific and Permanent Losses Clause.* The insured might suffer loss due to two different accidents. No payment is made for more than one specific and permanent loss. Furthermore, any payment under Schedule I terminates the policy contract.

**SCHEDULE II: TOTAL OR PARTIAL DISABILITY.**—Most injuries are temporary. For a short period of time the insured may not be able to leave the home. Sometimes the accident may not confine the insured to his home or a hospital. When injuries cause complete and continuous total disability beginning within two weeks from the date of the accident, the company will pay the insured a specified weekly accident indemnity.

Some forms provide that payment will be made for 52 weeks if the insured is unable to perform every duty pertaining to his occupation, and thereafter as long as he is unable to engage in any business or employment for wages or profit. Therefore the accident policy will provide benefits for the entire lifetime of the insured if his disability from the accident is permanent, and consequently he is unemployable.

If, under the same circumstances, the insured is prevented from performing one or more material duties of his occupation, he is entitled to one-half the specified weekly indemnity. This payment is made weekly during his partial incapacity for a period not exceeding 52 consecutive weeks.

**SCHEDULE III: SUNSTROKE, FREEZING, HYDROPHOBIA, ASPHYXIATION, BLOOD POISONING, ETC.**—The policy provides that losses due to the causes mentioned in this schedule are deemed to be accidents. The following are included: choking while swallowing, sunstroke, somnambulism, freezing, assault by burglars or highwaymen, involuntary or unconscious inhalation of gas or other poisonous vapor, blood poisoning, hydrophobia, or septicemia due solely to the injury.

**SCHEDULE IV: ELECTIVE INDEMNITIES.**—As stated previously, benefits are generally payable weekly. For certain types of injury the period of disability at the option of the insured will not be used to determine the amount of benefit. For injuries listed in Schedule IV, the insured may take the amount listed in this schedule in lieu of all other indemnity. Only one such indemnity is payable for any one accident.

The insured must indicate his choice of this mode of settlement, in writing, within 20 days from the date of the accident.

The amounts specified in the following schedule are based on a weekly indemnity of \$50. For weekly indemnities of more or less than \$50 payments vary proportionately.

For loss of:

One or more entire fingers (at least one entire phalanx) . . . . .	\$320
One or more entire toes . . . . .	400

For complete dislocation of:

Shoulder . . . . .	200
Elbow . . . . .	200
Wrist . . . . .	250
Hip . . . . .	600
Knee . . . . .	320
Two or more bones of foot (not toes) . . . . .	320
Ankle . . . . .	320
Two or more toes . . . . .	120
Two or more fingers . . . . .	120

For complete fracture of:

Skull, both tables . . . . .	650
Lower jaw . . . . .	160
Collar bone . . . . .	320
Pelvis . . . . .	500
Thigh . . . . .	600
Leg (tibia and fibula) . . . . .	400
Leg (one bone) . . . . .	200
Knee cap . . . . .	400
Arm, between elbow and shoulder . . . . .	320
Arm, between wrist and elbow (both bones) . . . . .	320
Arm, between wrist and elbow (one bone) . . . . .	200
Two or more ribs . . . . .	200
Foot (two or more bones—not toes) . . . . .	250
Hand (two or more bones—not fingers) . . . . .	250
Two or more toes . . . . .	200
Two or more fingers . . . . .	200
Scapula (shoulder blade) . . . . .	320

**SCHEDULE V: DOUBLE INDEMNITY.**—If the policyholder is injured under certain specified circumstances, the amounts payable under Schedules I, II, and IV are doubled. Accidents under the following circumstances will require doubling of the benefit:

1. As passenger in a public conveyance provided by a common carrier for passenger service, including the time of boarding and alighting on platforms, steps, or running boards.
2. As a passenger on elevators, except those in mines.
3. Destruction by fire of a building, except when the insured is in the structure as a fireman on duty.
4. Lightning, cyclone, or tornado.

5. Explosion of steam boiler.
6. Collapse of the outer walls of a building while the insured is in the structure.

**SCHEDULE VI: EXTRA EXPENSE.**—In addition to payment of benefits, the insured may recover for financial loss due to expense of treatment by physician or surgeon, nurse, and hospital. To meet such costs, the policy provides for the following :

If the injury requires, within 180 days from the date of accident, medical or surgical treatment, hospital confinement or the employment of a trained nurse or nurses, the company will pay, in addition to any other indemnity payable, the actual expense of the treatment, hospital charges, and nurses' fees, up to an amount not exceeding the limit specified in the policy.

**SCHEDULE VII: IDENTIFICATION INDEMNITY.**—The insured may sustain injuries which render him physically unable to communicate with friends and relatives. Upon receipt of a telegram or other message giving the policy number, the company will immediately transmit any information concerning him to friends and relatives. It will also pay, in addition to other indemnity, all expenses, not exceeding \$100, necessary to place the insured in the care of those interested in his recovery.

**SCHEDULE VIII: PASSENGER AVIATION.**—The policy covers the insured while traveling under the following circumstances :

1. Anywhere in the world as a passenger in an aircraft operated by a passenger airline on a regularly scheduled passenger trip over its established route.
2. Within the bounds of the mainland of North America (including islands within 50 nautical miles of the mainland and flights between the mainland and such islands) as a passenger in a powered civil aircraft, of United States or Canadian registry, having a valid and current airworthiness certificate issued by the duly constituted authority of the government of the United States or Dominion of Canada having jurisdiction over civil aviation, and operated by a duly licensed or certificated pilot, while such aircraft is being used for transportation only and not for any purpose such as crop dusting, seeding, skywriting, racing, testing, exploration, or any other purpose except the sole purpose of transportation.

The coverage does not apply (a) to any person while operating, learning to operate, or serving as a member of a crew of an aircraft, or (b) to travel or flight in any aircraft operated by or under the direction of any military or naval authority, or (c) to any form of aviation travel, hazard, or exposure not specified, or (d) to the double indemnity specified in the policy.

**EXCLUSIONS.**—Benefits are not paid for accidents due to some causes. No payments are made for accidents occurring under the following circumstances :

1. Suicide (sane or insane) or any attempt thereat.
2. Loss caused directly or indirectly by disease or infection, whether the disease or infection is the primary, proximate, or contributing cause (except pyogenic infection which occurs through an accidental cut or wound).
3. By war or any act of war, or suffered by the insured while in the military or naval service of any country at war, and in the latter event the unearned premium will be returned to the insured.
4. Death, disability, or other loss resulting from injuries sustained by the insured while in or on any aircraft or other device for air travel, or in falling or otherwise descending therefrom or therewith, or while operating or handling any such aircraft or device, except as provided in Schedule VIII.
5. Death, disability, or other loss caused directly or indirectly by medical or surgical treatment, except such as may result directly from surgical operations made necessary solely by injuries covered by the policy.

Mere disappearance of the insured will not be deemed covered by the policy. There is a possibility that the insured has completely recovered. Therefore if he cannot be found, the assumption should not be made that the disability of the insured has continued from the date of the accident.

**Application as Part of Contract.**—The copy of the application endorsed on the policy is made a part of the policy contract. No provision of the charter, constitution, or by-laws of the company not included in the policy can void the policy or be used as evidence in any legal proceedings under the policy.

**Standard Provisions Required by Law.**—Certain standard provisions which the law requires are made part of each accident policy. These provisions, which are subject to some variations permitted by statute, may be summarized as follows :

**CHANGE OF OCCUPATION.**—If injury occurs after the insured has changed his employment to a more hazardous occupation, the company will pay only that portion of the indemnity which the premium paid would have purchased at the rate for the more hazardous occupation. The rule does not apply if the injury is sustained while the insured is engaged in recreation or in ordinary duties around his residence.

The premium rates and risk classification mentioned in the policy signify those last filed with the state official supervising insurance in

those states requiring such filing. If, however, filing is not required in the state in which the insured resides, then the company's rates and risk classification last made effective by it in that state will determine the company's liability.

**ALTERATION OF POLICY.**—Statements of the applicant not included in the policy cannot void the policy or be used in any legal proceedings under the policy.

Furthermore, agents have no authority to waive any provisions or alter the policy in any way. Changes are valid only when approved by an executive officer of the company and endorsed on the policy.

**REINSTATEMENT OF POLICY.**—If default is made in the payment of the agreed premium for the policy, the subsequent acceptance of a premium by the company or by any of its duly authorized agents reinstates the policy, but only to cover loss resulting from accidental injury thereafter sustained.

**TIME OF NOTICE OF CLAIM.**—Written notice of injuries on which claims may be based must be given to the company within 20 days after the date of the accident. Notice of accidental death, however, must be given immediately.

**SUFFICIENCY OF NOTICE.**—Any notice given by or on behalf of the insured or his beneficiary with particulars sufficient to identify the insured is deemed to be notice to the company. It may be presented at the designated office of the company or to any authorized agent.

Failure to give notice within the time provided does not invalidate any claim if it can be shown that notice was given as soon as was reasonably possible.

**FORM FOR PROOF OF LOSS.**—Upon receiving notice of loss, the company must provide the claimant with a special form for policy proof of loss. If this form is not furnished within 15 days after notice, the claimant is deemed to have complied with the filing requirement upon submitting written proof covering the occurrence, character, and extent of the loss. This written statement is subject to the time limit fixed in the policy for filing proof of loss.

**TIME FOR FILING PROOF OF LOSS.**—In case of claim for loss of time from disability, affirmative proof of loss must be furnished to the company at its designated office within 90 days after the termination of the period for which the company is liable. Claims for other losses require filing within 90 days after the date of loss.

**MEDICAL EXAMINATIONS.**—The company must be granted the right and opportunity to examine the person of the insured as frequently as it

may reasonably require during the pendency of claim under the policy. Furthermore, when permitted by law, it may make an autopsy in case of death.

**PAYMENT OF CLAIM.**—All indemnities provided in the policy for loss, other than that of time on account of disability, must be paid immediately after receipt of due proof. Upon request of the insured and subject to due proof of loss, all accrued indemnity for loss of time on account of disability must be paid at the expiration of each four weeks during the continuance of the period for which the company is liable. Any balance remaining unpaid at the termination of the period must be paid immediately upon receipt of due proof.

Indemnity for loss of life of the insured is payable to the beneficiary if surviving the insured, and otherwise to the estate of the insured. All other indemnities of the policy are payable to the insured.

**BENEFICIARY.**—Consent of the beneficiary will not be requisite to surrender or assignment of the policy, or to change of beneficiary, or to any other changes in the policy.

**TIME OF SUIT.**—No action at law or in equity may be brought to recover on the policy prior to the expiration of 60 days after proof of loss has been filed in accordance with the requirements of the policy. Furthermore, action must be brought within two years from expiration of the time within which proof of loss is required by the policy.

**LIMITATIONS CONTROLLED BY STATUTE.**—Any time limitation of the policy with respect to notice of claim or proof of loss must not be less than the minimum period prescribed by the laws of the state in which the insured resides. When the policy specifies shorter limits, they are automatically extended to the minimum legal limits.

**CANCELLATION.**—When the insured changes to a less hazardous occupation, the insured may surrender the policy by a written request for cancellation. The company must then return the unearned premium.

The company may cancel the policy at any time by written notice delivered to the insured or mailed to his last address, as shown by the records of the company, with cash or the company's check for the unearned portion of the premiums actually paid by the insured. The cancellation will be without prejudice to any claim originating prior to the cancellation.

**Optional Provisions.**—In addition to legally required provisions, the accident policy may include certain optional provisions relative to reduction of indemnity and premium, age limits, other insurance, and cancellation.

**REDUCTION OF INDEMNITY AND PREMIUM.**—If the insured carries other insurance covering the same loss without giving written notice to the company, the latter is liable only for that portion of the stated indemnity as that indemnity bears to the aggregate indemnity in all policies covering the loss. The company must also return the excess premium paid over the amount required for the reduced indemnity.

**OTHER INSURANCE WITH SAME COMPANY.**—An optional standard provision relative to other insurance with the same company may be included in one of three forms. In the blank spaces of one of the three following clauses, the insurer must insert the maximum limit of indemnity prescribed by the company's classification of risks and filed as required by law :

If a like policy or policies, previously issued by the insurer to the insured be in force concurrently herewith, making the aggregate indemnity in excess of \$ . . . the excess insurance is void and all premiums paid for such excess will be returned to the insured.

If a like policy or policies, previously issued by the insurer to the insured be in force concurrently herewith, making the aggregate indemnity for loss of time on account of disability in excess of \$ . . . weekly, the excess insurance will be void and all premiums paid for such excess will be returned to the insured.

If a like policy or policies, previously issued by the company to the insured be in force concurrently herewith, making the aggregate indemnity for loss other than that of the time on account of disability in excess of \$ . . . or the aggregate indemnity for loss of time on account of disability in excess of \$ . . . weekly, the excess of either kind shall be void and all premiums paid for such excess will be returned to the insured.

**AGE LIMITS.**—The policy may include an optional standard provision regarding age limits which may be any number of years the company may elect. These age limits must be indicated in the blank spaces of the following clause :

The insurance under this policy does not cover any person under the age of . . . years nor over the age of . . . years. Any premium paid to the insurer for any period not covered by this policy will be returned upon request.

**Accidental Death and Dismemberment.**—Individuals engaged in nonoccupational work, such as students, should not require a weekly indemnity. A policy is therefore available for those engaged in non-occupational work which provides the following benefits :

1. For death, disability, and loss of sight.
2. For complete fracture of certain specified bones, for complete dislocation of certain specified joints, bones, or fingers, and for loss or removal of toes or fingers.

3. If the injury requires, within 26 weeks after the date of accident, treatment by a physician or surgeon, hospital confinement, or the employment of a trained nurse, in addition to any other indemnity to which the insured may be entitled, the actual expense of treatment, hospital charges, and nurses' fees, up to the amount as specified in the policy.

**Health Insurance.**—A person who becomes sick may suffer financial loss for the following reasons: (1) loss of earning power, (2) payment of nurses' fees, hospital expenses, medical fees based upon confinement, and surgical fees. Protection against these losses is available through health insurance.

Health insurance is generally written in connection with accident policies. It is thus possible to obtain one policy providing both accident and health indemnities. Health policies are available in the non-confinement and confinement forms.

**Health Nonconfinement Policy.**—The insured is entitled under the nonconfinement policy to a weekly sickness indemnity of a specified sum for a stipulated period of time. The policyholder is thus indemnified against disability resulting directly from illness contracted during the term of the policy. The amounts of the various indemnities are stated in four separate schedules.

**SCHEDULE I: LOSS OF TIME FROM TOTAL DISABILITY.**—If any sickness covered by the health policy prevents the insured from doing any work in his occupation, the company will pay him the weekly sickness indemnity specified in the policy. Payments begin after the first 14 days of disability and continue during disability for a period not exceeding 52 consecutive weeks.

**SCHEDULE II: HOSPITALIZATION.**—This schedule applies when the insured must be removed to a hospital within three months from the commencement of an illness covered only by the weekly indemnity provision of Schedule I. In the event that no claim is made for nurses' fees, the company will pay the insured one-half of the weekly indemnity specified in the policy during confinement for a period not exceeding 20 weeks. This payment is in addition to the weekly indemnity payable for his illness.

**SCHEDULE III: NURSES' FEES.**—If within three months from the commencement of illness, the services of a graduate nurse are required, the company will pay for the nurse's services for a period not exceeding 20 weeks. This indemnity is in addition to the weekly indemnity specified in the policy, and in no case can exceed 50% of the latter. Furthermore, this indemnity is not allowed if a claim is made for hospital expenses.

**SCHEDULE IV: SURGICAL OPERATION FEES.**—If, within 90 days from the beginning of illness, a surgical operation is required, the company will pay a scheduled sum for the operation in addition to sickness benefits. Payment is made only for the first operation resulting from any one sickness. Furthermore, the insured is not entitled to indemnity if the operation is necessitated by a bodily condition which existed prior to the issuance of the policy.

The amounts specified in the following schedule are based on a weekly indemnity of \$50, and must be adjusted proportionately for weekly indemnities of greater or lesser amounts :

**SCHEDULE OF OPERATIONS**

Abdomen—cutting into abdominal cavity for diagnosis or treatment of organs therein.....	\$200
Amputation of:	
Thigh.....	150
Arm, leg, or entire foot.....	100
Forearm or entire hand.....	50
Thumb or one or more fingers or toes (at least one entire phalanx).....	20
Chest—cutting into thoracic cavity for diagnosis or treatment of organs therein.....	100
Ear, nose, or throat—any cutting operation.....	20
Excision—removal of:	
Shoulder or hip joint.....	200
Knee joint.....	150
Elbow, wrist, or ankle joint.....	100
Coccyx.....	20
Eye, removal of.....	100
Any cutting operation on the eyeball.....	20
Goitre—cutting operation for radical cure, arterial ligation excepted..	150
Hydrocele—incision and treatment of sac.....	50
Incision for drainage.....	10
Joint—cutting into joint for diagnosis or treatment of intra-articular structures.....	50
Mastoiditis—cutting operation for removal of diseased bone.....	100
Paracentesis—tapping of:	
Abdomen.....	50
Bladder.....	30
Chest.....	30
Eardrum.....	20
Hydrocele.....	20
Joints.....	20
Rectum—cutting operation for radical cure of:	
Hemorrhoids, external.....	30
Hemorrhoids, internal.....	50
Prolapsed.....	50
Fistula in ano.....	40
Stricture.....	50
Skull—cutting into cranial cavity.....	200
Spine or spinal cord—operation with removal of portion of vertebra.....	200
Stone in bladder, removal of, by crushing operation.....	70
Tumors, removal of, by cutting operation	
Malignant.....	100
Benign.....	30
Varicose veins—operation for radical cure.....	30

**Health Confinement Policy.**—The confinement policy is similar in its general provisions to the nonconfinement policy, but carries additional provisions relative to confinement. If, as the direct result of disease, the insured is wholly and continuously incapacitated, confined to his house, and prevented from performing any duty pertaining to his occupation, the company will pay a specified weekly indemnity for the disability and confinement. One half of the weekly indemnity will be paid if the insured is not confined to his house. The limit in both cases is 52 consecutive payments.

**Exclusions.**—The health policies stipulate that the company is not liable for disability resulting from any disease for which the insured is not treated by a physician. Furthermore, the policy is subject to a waiting period provision which excludes diseases beginning within 14 days from noon of the date of the policy. The confinement policies may be issued eliminating the waiting period so that the indemnity provisions commence from the date of the policy.

**Sickness Expense Policy.**—A policy excluding weekly indemnity is also available. The policy is limited to reimbursement for expenses. The sickness expense policy provides protection subject to specified limits for the following :

1. *Hospital confinement.* If, on account of the disease, the insured is confined in a hospital, the company will pay the actual expense of the hospital confinement but not exceeding the daily indemnity specified in the policy for each day of hospital confinement and for not exceeding 70 days for any one illness.
2. *Nurses' fees.* If, on account of disease, the insured employs the full-time service of a trained nurse, in a hospital or elsewhere, the company will pay the actual expense of the nursing service, but not exceeding the daily indemnity specified for each day of nursing service and for not exceeding 70 days for any one illness.
3. *Miscellaneous expense.* If, on account of a disease and while confined in a hospital, the insured incurs expense for X-ray examinations, laboratory tests, drugs, surgical dressings, anaesthetist, or use of an operating room, the company will pay the actual expense but not exceeding the limit specified for any or all combined of these miscellaneous expenditures for any one illness.
4. *Medical fees based on hospital confinement.* If, on account of a disease, the insured is confined in a hospital, the company will pay the daily stipulated indemnity for medical fees for each day of the hospital confinement but for not exceeding 70 days for any one illness.
5. *Surgical fees.* If, on account of a disease, any operation stated in the policy is performed on the insured by a surgeon during the term

of the policy or during a period of hospital confinement or employment of a trained nurse, the company will pay a stipulated fee for the operating surgeon. Not more than one surgical fee will be payable for any one illness.

Under the sickness expense policy there is no liability for (1) any loss resulting from disease contracted during, or while engaged in, the military or naval service of any country at war, or occasioned by such service; (2) if the insured be a female, any loss due to pregnancy, childbirth, or miscarriage; (3) any loss resulting from bodily injuries sustained through accidental means.

**STANDARD PROVISIONS.**—Health policies must contain standard provisions similar to those required for accident policies as well as several others. Written notice of sickness on which a claim may be based must be given to the company within ten days from the starting date of disability. Furthermore, if the insured fails to pay the required premiums, subsequent acceptance of a premium reinstates the policy only for illnesses beginning more than ten days after acceptance.

**OPTIONAL PROVISIONS.**—The optional provisions mentioned in connection with the accident policy may apply on forms providing combined accident and health benefits.

### Miscellaneous Policies

Many companies issue policies with special provisions. One such type contains an increasing indemnity provision for accident insurance. Commencing with the payment of the second month's premium, for each consecutive month immediately preceding date of accident the company will pay 1% in addition to the principal sum benefits, subject to a limit of 50%.

Other policies are issued with limited provisions to meet the needs of industrial workers. Still others are written designed to cover accidents arising from the operation of an automobile.

**Automobile Accident Policy.**—This policy covers the insured against accidents under the following circumstances :

1. Cranking, demonstrating, riding in, or driving a private passenger automobile, which excludes vehicles carrying passengers for hire or transporting merchandise for business purposes.
2. Riding as a fare-paying passenger in an automobile, bus, stage, or taxicab operated by a licensed common carrier solely for the transportation of passengers.

3. Being struck or run over by a moving automobile while on a public highway.
4. Burning or explosion of any automobile, whether privately owned or operated by a licensed common carrier.
5. Injury resulting from contact with the attached parts of his own private passenger automobile while being repaired by the insured.
- '6. Injury while changing a tire on the insured's private passenger automobile.

**Premium Charge.**—The premium for accident and health insurance is based on the occupational hazards of the applicant. All occupations are divided into grades, identified by name and number or symbol. Illustrations of grades used by several companies are :

A—executive, accountant.

B—outside salesman, factory supervisor.

C—automobile salesman (not repairing), golf professional.

D—soda dispenser, carpet layer.

E—automobile filling station attendant, electrician wiring building (inside work only).

F—garage mechanic, telephone lineman.

G—electrician wiring building (outside work), shoe factory laborer.

H—house wrecker, steel riveter.

The classification of risks takes into account : (1) the extent of exposure to accidental injury ; (2) the nature of the work performed ; (3) the probable effect of injury on the duration of disability ; (4) age groups.

**Underwriting Problems.**—Policies are issued usually to persons engaged in remunerative occupations and steadily employed. Persons who are not employed during the entire year, such as actors, farmers, and teachers, may present problems of malingering. Students, actors, and musicians (if insured) are frequently insured only against dismemberment or accidental death, and the policy does not provide for weekly benefits.

**Noncancellable Health and Accident Policies.**—The health and accident policies previously discussed are issued for a period of one year and, as stated, are subject to cancellation by the company during the course of the policy period. Various policies are available which are noncancellable so long as the insured continues to pay the premium, up to age 60. These policies are generally issued subject to a medical examination and a waiting period.

The following is an illustration of a noncancellable accident and health policy issued by one of the companies :

1. The noncancellable income disability policy provides that if the injury or sickness results in total disability and necessitates the total loss of all business time, the company will pay, during the continuance of the total disability and total loss indemnity, a stipulated amount per month. However, no indemnity will be payable for the first 90 days of the total disability and total loss.

The term "total disability" means complete inability to perform any and all duties of the insured's regular occupation for the first 60 months of continuous disability. Thereafter, total disability means complete inability to engage in any gainful occupation. The term "gainful occupation" means one in which the insured, by reason of his training and education, might reasonably be expected to engage and from which he might expect to derive an income reasonably consistent with his earnings from the occupation under which he is insured. The monthly indemnities for accident and sickness are limited to periods up to 120 months for one accident or one sickness.

2. If the injury or sickness partially disables the insured and prevents him from performing the majority of his occupational duties, provided that the partial disability immediately follows a period for which the insured is entitled to indemnity under the paragraph above, the company will pay for the period of the partial disability indemnity for a stipulated amount per month not to exceed six months during any continuous disability.
3. Should the insured suffer, as a direct result of the injury, the loss of both entire hands by complete severance at or above the wrists, or the loss of both entire feet by complete severance at or above the ankles, or the loss of one entire hand by complete severance at or above the wrist and one entire foot by complete severance at or above the ankle, or the total and irrecoverable loss of sight of both eyes, the company will pay the monthly indemnities specified in the policy. The first installment will be paid within one month after receipt of due proof and subsequent installments will be paid monthly thereafter. Payments under this section are in lieu of any other indemnity provided in the contract.
4. During the period of continuous disability, the insured must be attended by a licensed physician other than himself, so that adequate medical information can be available.
5. If the injury or sickness results in total disability for which indemnity is payable, any premium is waived if disability continues at least 90 days. Following such period of disability during which premiums have been waived, the insured has the right to resume payment of further premiums as they become due.
5. The insured has the right to continue the policy in force by payment of premiums when due until he reaches his sixtieth birthday. After the policy has been in continuous force for two full years during the

lifetime of the insured, the policy is incontestable as to the representations contained in the application when the policy of insurance was issued.

## 7. Miscellaneous provisions

- (a) The indemnity will be payable if disability is suffered while riding as a fare-paying passenger in a licensed passenger aircraft provided by an incorporated passenger carrier which is being operated by a licensed pilot upon a regularly established time schedule over a passenger route between definitely established airports. Otherwise the policy will not cover any disability or loss sustained from being in or on, or for operating any vehicle or mechanical device for aerial navigation, or in falling or otherwise descending from or with such a device.
- (b) Indemnity will not be payable (1) for any disability which results in any attempt at suicide or by injuries intentionally self-inflicted; (2) for any disability caused by war or any act of war or suffered while in military or naval service for any country at war; (3) for disability contracted or suffered outside the States of the United States, the District of Columbia, or Canada, unless a travel permit is granted in writing by the company, (4) for any period of disability during which the insured is outside the territory, unless permission to reside elsewhere is granted in writing by the company. The reason for the limitation on disability outside of certain geographical locations is due to the fact that the insurance company would find difficulty to make adequate investigations of the claim and the period of total or partial disability.
- (c) If, following a period of disability due to sickness or injury, the insured resumes his regular occupation and performs all the important duties for a continuous period of six months or more, any subsequent disability resulting from or contributed to by the same cause or causes and occurring while the policy is in force will be considered as a new period of disability and indemnified in accordance with the applicable provisions of the policy. If the period during which the insured resumes his regular occupation is less than six months, the subsequent disability is deemed a continuation of the same disability, and the company's liability for the entire period is subject to the limits mentioned in the part of the policy under which the original period of disability was indemnified.
- (d) If the age of the insured is misstated in the application, the indemnities payable will be those which the premium paid would have purchased at the correct age according to the company's premium rates.

- (e) No assignment will be recognized by the company.
- (f) A grace period of 31 days is allowed on all premium payments after the first.

A noncancellable accident and health policy similar to the policy previously described is available to age 65. However, the policy provides that the monthly income will be payable for 120 months during any period of continuous disability but not after the sixty-fifth anniversary of the insured's birth. If the disability commences after the sixty-fourth anniversary of the insured's birth, then the company will pay benefits for 12 months during any period of continuous disability.

In addition, a policy is available providing for payment of accident benefit as long as the disability continues beyond the period of 120 months provided for one accident.

The following additional coverages are available in connection with the noncancellable accident and health policy :

1. Hospital and medical reimbursement.
2. Weekly benefit payments can commence immediately or 30 days or 60 days after the accident or sickness.

A noncancellable policy is also available providing for the following contingencies :

1. Total disability and confinement. When sickness wholly and continuously disables the insured from performing each and every duty pertaining to his occupation, the company will pay the monthly sickness indemnity for the period the insured lives and is so disabled and necessarily and continuously confined within the house and is regularly visited and attended by a legally qualified physician or surgeon other than himself.
2. Total disability and nonconfinement. When sickness wholly and continuously disables and prevents the insured from performing each and every duty pertaining to his occupation, and he is not confined to his house, the company will pay the monthly sickness indemnity for a period not to exceed 12 consecutive months if under the regular care and attendance of a legally qualified physician or surgeon other than himself.

**Accident and Health Insurance for Professional Groups.**—Many of the insurance companies have experimented with policies covering groups of individuals instead of issuing a single policy for each member of the group. The provisions in the group policy are frequently more liberal than the provisions contained in the policy issued to the individual. A group policy is available for members of associations, such as unions or

professional associations. A master policy is issued to the association, and certificates are issued to the various members. The advantages claimed for the association group policy are as follows :

1. Health policies usually exclude preexisting conditions. However, the association group policy will cover all diseases without regard to the date of origin.
2. As all members must be accepted by the insurance company, no member can be excluded because of his past physical record. For example, the certificate does not provide, as in some policies, that there will be no liability for accidents caused by further impairment of part of the body which has previously been impaired, such as loss of an arm, whereas under similar circumstances the individual policy may be subject to an impairment rider.
3. Adjustments of claims are made through a representative of the association.
4. Benefits for accident and for sickness are available up to age 70 without any additional cost. Generally, the companies charge an increase for an individual health policy after age 50, and generally do not issue any insurance after stipulated ages, such as 54 or 59.
5. Sickness benefit is paid regardless of whether the member is confined to his home. As stated previously, under some individual policies benefits are not paid unless the insured is confined to his home, and some policies pay only partial benefits.
6. There is no exclusion except if loss is due to military service.
7. The group policy cannot be canceled during the policy year.

**Group Accident and Health Insurance.**—The benefits of the workmen's compensation law apply only during the time that the worker is employed at his trade. If he suffers an accident after his working hours, he cannot claim compensation under the law. Furthermore, the compensation law does not provide benefits for sickness. Group accident and health insurance has been introduced to meet these needs. This form of insurance offers protection to employees for accidents which are not covered under the workmen's compensation law, as well as sickness occurring during and after working hours.

As there is no standard group accident and health policy, the practice of the companies varies. The provisions of one group accident and health policy will serve the purpose of illustration.

**INDEMNITY PROVISIONS.**—The group policy covers employees from accidental injury and sickness, excluding occupational diseases and injuries arising from the particular employment, which are covered by the workmen's compensation laws.

Each employee who has completed a probationary period of, for example, three months of service on the effective date of the policy, is

eligible for the group plan. Persons who have attained their seventieth anniversary, however, are excluded.

The amount of weekly indemnity is determined by the average weekly compensation paid by the employer during the preceding three months, as follows:

Weekly Compensation	Weekly Indemnity
Less than \$15.00 . . . . .	\$ 8.00
\$15.00 and less than \$22.50 . . . . .	10.00
\$22.50 and less than \$30.00 . . . . .	15.00
\$30.00 and less than \$40.00 . . . . .	20.00
\$40.00 and less than \$60.00 . . . . .	30.00
\$60.00 and over . . . . .	40.00

**INDEMNITY LIMITS.**—The period during which benefits are payable excludes the first three days of disability in case of accidental bodily injuries, and the first seven days in case of illness. In no event, however, are benefits paid for more than 13 weeks for any one disability.

Indemnity for disability caused by or resulting from any one pregnancy, including resulting childbirth or miscarriage, is limited to a period of not more than six weeks.

**EXCLUSIONS.**—In addition to accidental bodily injuries and occupational diseases covered by the workmen's compensation law, disabilities are excluded under the following circumstances:

1. When a physician is not in attendance.
2. When the disability results from self-inflicted injuries.
3. During the performance of military, naval, and police duties, whether in riots or in time of war.

**RATES.**—Practices governing the issuance of group accident and health insurance are similar to those of the group life insurance policy. As with group life insurance policies, a master policy is issued to the employer, and a certificate to each employee stating that he is covered.

Rates on group policies are quoted only after inspection of working conditions. Variations in rates depend upon (1) type of risk; (2) special occupational hazards; (3) unusually large percentage of older employees; (4) percentage of women to total; (5) waiting period.

**Off the Job Disability Insurance.**—By law, in some states, most employers must provide for disability caused by accident or illness if not covered by the workmen's compensation law. (See Chapter 22.)

**Group Hospitalization Policy.**—The group accident and health policy makes no provision for reimbursement of injured employees for hospitalization. The employer may obtain this coverage through the hospitalization group policy, also a group policy for surgical operations.

**Hospitalization: The Blue Cross Plan.**—In view of the fact that many individuals have suffered serious financial loss when they or members of their families needed hospital service, a plan, designated as the Blue Cross Plan, has been developed. There are a number of these plans throughout the United States. The provisions of the plan vary to meet the circumstances of hospital facilities and special needs of the community. The aim of this plan is to provide hospital care on a service basis at a fixed advance charge. Frequently this plan is purchased by employers for the benefit of their employees. Individual policies, which include members of families, are also available. In view of the fact that the plan is not completely standardized throughout the United States, reference will be made to the provisions of the plan as used in one territory.

Group enrollment through the cooperation of the employer, who provides pay-roll deduction and remits for his personnel, accounts for most of the enrollment. A base percentage of participation is required for the group to qualify. This percentage varies with the number of employees. For example, 50% is necessary where there are 251 to 500 employees.

For the purpose of the policy, the terms "applicant," "subscriber," and "family group" are defined. The term "applicant" means the person who, on behalf of himself only, or on behalf of himself and the members of his family group, if any, has made application for, and with whom the company has entered into, the contract. If the policy is written for the family, the term means the applicant and the members of the family group, if any, over 90 days of age. Any subscriber, other than the applicant and spouse, ceases to be a member of the family group and a subscriber on the anniversary of the effective date following either the attainment of age 18 or marriage. Thereafter a separate policy can be obtained for each individual who is no longer considered a member of the family group. Any person who has attained the age of 65 years prior to the effective date of the contract is not included unless the person was a subscriber under another company contract in effect immediately preceding the effective date of the present contract. If the plan is written for a group of employees, applicants over 65 are eligible.

In order to provide necessary hospital services, the company enters into agreements with various hospitals, which are then considered to be member hospitals, to furnish hospital service as stated in the policy contract. The company agrees to compensate member hospitals for hospital service rendered by them to subscribers by payments in the amounts and upon the basis as determined from time to time by the board of directors of the company subject to approval as to adequacy by state agencies and as to reasonableness by the superintendent of insurance of the state.

The following are some of the hospital services available :

Bed and board, including special diets, general nursing service, use of operating and cystoscopic rooms and equipment, laboratory examinations consistent with the diagnosis and treatment of the condition for which hospitalization is required, use of cardiographic equipment, basal metabolic examinations, use of physiotherapeutic equipment, oxygen and use of equipment for administration of oxygen, drugs and medications for use in the hospital, including sera, biologicals, vaccines, intravenous preparations and visualizing dyes (but not including blood plasma, radium therapy, roentgen therapy), dressings and plaster casts, anesthesia supplies and use of anesthesia equipment, administration of anesthesia if administered by an employee of the hospital, X-ray examinations consistent with the diagnosis and treatment of the condition for which hospitalization is required.

A subscriber will be entitled in each contract year to hospital service in semiprivate or ward accommodations in member hospitals on one or more admissions, and will be entitled to 21 days for each hospital admission for a different ailment. After the 21 days, the benefit will be limited to 50% of the hospital's regular charges for semiprivate or ward accommodations, but for not more than 180 days additional.

However, in private rooms, for the first 21 days of hospitalization, the subscriber must pay the difference, if any, between the charges for the private room and a reasonable amount determined by the company, subject to the approval of the Superintendent of Insurance of the State. For hospitalization during the additional 180-day period, the subscriber must pay the difference between the charges for a private room, and 50% of the amount which the company would pay during the first 21 days.

As a subscriber may also receive service from a nonmember hospital, the company will compensate nonmember hospitals for service rendered. The compensation will at all times be subject to the determination of the company and approval of the superintendent of insurance of the state. Charges cannot exceed either the then prevailing rate to member hospitals or the hospital's regular charges for the hospital service rendered.

In computing the number of days of hospital service rendered to a subscriber, the day of admission and the day of discharge will both be counted only if the admission is before 1 P. M. and the discharge is at or after 1 P. M. Otherwise, the portions of the different days will be considered together as one day. If a subscriber is discharged on the same day on which he is admitted, the day will be counted as one day.

If subscriber remains in a hospital after being advised by physician that further hospital service is unnecessary, subscriber will be solely responsible for all hospital charges incurred after being so advised.

In order to avoid unnecessary use of the hospital, the subscriber cannot enter the hospital without professional advice. Therefore the

hospital service will be available only to a subscriber admitted as a registered bed patient on the recommendation, and while under the treatment of a physician in the hospital selected. However, special consideration is given to emergency treatment. Under such circumstances, hospital services for emergency first-aid will be available, limited to the period within 24 hours after the injury or for the use of operating facilities to a subscriber who is not admitted as a registered bed patient.

The company is not liable unless written notice of admission of a subscriber to a hospital is given the company within 30 days after the admission. Failure to give the notice will not invalidate or diminish any claim if proof can be shown that it was not reasonably possible to give the notice and that notice was given as soon as was reasonably possible.

In order that the company may have the necessary information concerning the need for the hospital service, the applicant and each member of the family group, if any, agrees that any physician, nurse, or hospital having made a diagnosis for, treated, attended, or rendered service to any subscriber, or in possession of any information or records relating to the case, is authorized and directed to furnish, to such extent as may be lawful, to the company at any time, upon request, any information and records or copies of records.

Under certain circumstances the hospital service will be limited. It is limited in the following cases to the extent specified :

1. For maternity cases and for any condition arising out of and during pregnancy, hospital service will be available
  - (a) Only to the wife included in the family group.
  - (b) Only if the contract has been in effect for ten consecutive months immediately preceding the hospital admission. The ten-month waiting period, however, does not apply to premature termination of pregnancy without childbirth, if otherwise childbirth would have occurred after the period. The waiting period for maternity care may be waived in group policies of 50 or more contracts if 75% of the employees are enrolled and if 75% of the married members enroll their dependents. Hospital services for maternity cases are limited to a stipulated allowance toward the hospital bill. The regular nonmaternity benefits which are provided for include (1) Caesarian sections, (2) ectopic pregnancies, and (3) miscarriages or abortions.
2. For the removal of tonsils or adenoids, hospital service will be available to a subscriber only after he has been a subscriber under the contract of the company, and any other company contract, for six consecutive months immediately preceding the hospital admission. The period is limited for subscribers under 12 years of age to one day and for subscribers of or over 12 years of age to two days. The waiting period for tonsils or adenoids may be waived in groups of

50 or more contracts if 75% of the employees are enrolled and if 75% of the married members enroll their dependents.

3. For pre-existing conditions. Hospital service for any condition, disease, or ailment which existed on the effective date of the contract or for which medical or surgical treatment or advice has been rendered within one year prior to the effective date, will be available to a subscriber only after the first 11 months from the effective date of the contract. If the subscriber was previously a subscriber under another company contract, the effective date of the contract, if in effect immediately preceding the effective date of the present contract, will be used in computing the 11-month and one-year periods. The waiting period for pre-existing conditions is waived in groups of 50 or more contracts if 75% of the employees are enrolled and if 75% of the married members enroll their dependents.

EXCLUSIONS.—The policy is subject to the following exclusions. No payment will be provided:

1. For any condition, disease, ailment, or accidental injury covered by workmen's compensation act or similar legislation for which hospitalization is furnished to the subscriber under the laws of the United States of America or any state or political subdivision.
2. For diagnostic X-ray or laboratory examination or other diagnostic studies, or primarily for physical therapy, rest cures, mental or nervous disorders, pulmonary tuberculosis after diagnosis as such, or communicable diseases requiring isolation or quarantine.
3. While in a hospital which is not a member hospital, within the area in which the company operates, except for accident or emergency illness.
4. For the services of physicians or of private nurses or their board, or ambulance service.

In addition to hospitalization, policies are also available through the Blue Cross Plan for the following benefits:

1. Surgical, while in the hospital.
2. Surgical-medical, while in the hospital.
3. General medical, which includes home, office, and specialist care in addition to Plan 2.

### QUESTIONS AND PROBLEMS

1. (a) Explain the need for accident and health insurance.  
(b) What indemnity provisions may be found in the various accident policies?  
(c) What important forms of accident and health insurance are available?

2. *R*, who was a traveling salesman, purchased a \$50 weekly benefit accident policy with \$5,000 principal sum on June 10. Discuss the company's liability under the following conditions:
- (a) On August 10 *R* lost one foot and one eye, due to an accident.
  - (b) As a result of an accident on July 20, it was necessary to amputate both of *R*'s feet above the ankle. *R* paid \$1,500 medical and surgical expense.
  - (c) As a result of injury, *R* was totally disabled from July 15, 1946, to December 15, 1947. *R* was confined to a hospital and paid \$600.
  - (d) As a result of injury while in a train, *R* was disabled and confined to a hospital from August 10 to December 10. After that period he was able to go to his place of business for several days during the week. This disability continued until July 15. *R* paid the hospital \$800.
  - (e) While *R* was traveling away from his home, he suffered a sunstroke. His family was in Europe at the time. It was necessary to spend \$50 for cablegrams in order to communicate with the family. He was totally disabled from July 10 to August 14.
  - (f) *R* was injured on September 15. As a result of the injury, the physicians decided on September 20 to amputate one finger. *R* was partially disabled for four weeks from the date of the accident.
  - (g) What if, in the above problem, notification had been sent to the company on October 6?
  - (h) *R* took a ride with *B* in the latter's airplane. Because of a faulty landing, *R* was injured and disabled for six weeks.
  - (i) *N* was killed as a result of an accident in *C*'s private airplane while on a trip through Brazil.
  - (j) *R* was a passenger in a commercial airplane from New York to London. *R* was injured when the airplane landed. He was disabled for three weeks. *R* paid medical bills amounting to \$150.
  - (k) While *R* was a passenger on a commercial airplane from New York to Cleveland, he was injured.
  - (l) Suppose that, in the above problem, *R* was a pilot?
  - (m) *R* used his airplane for crop dusting. As a result of an airplane accident, *R*'s right foot was amputated.
  - (n) Following business reverses, *R* committed suicide.
  - (o) *R* was injured on November 20, but disappeared after the accident.
  - (p) *R* helped his wife at home with spring cleaning. While dusting a picture, *R* fell from a ladder and was disabled for three weeks.
  - (q) What if, in the above problem, *R* had changed his occupation and had become a painter?
3. *F*, who was a clerk, purchased a \$50 weekly accident policy with \$5,000 principal sum. State the company's liability under the following circumstances:

- (a) *F* failed to pay the semiannual premium on December 15. Five days later, however, the company's agent accepted the premium. On December 18, *F* was disabled by injury and was able to return to work on December 22.
  - (b) As a result of accident, *F* was killed by a train on November 19. The beneficiary of *F*'s policy was notified of the accidental death on November 20, and reported the fact to the company the same day. The company demanded an autopsy, but the beneficiary did not give his consent.
  - (c) What if the company was notified of the accidental death on November 22, and upon investigation it was determined that the autopsy was legally prohibited?
  - (d) *F* was disabled on January 15 for six weeks. The doctor expected that his disability would continue for 20 weeks. At the end of six weeks, *F* requested payment of benefits.
  - (e) *F* was killed in an accident. The executor of *F*'s estate and *F*'s wife each demanded payment of the benefits.
  - (f) *B* was named the beneficiary in *F*'s policy. Subsequently, *F* requested the company to change the beneficiary to *C*. *B* objected to the change in beneficiary.
  - (g) After *F*'s policy had been in force six months, he requested the company to cancel his policy and return the premium for the balance of the policy period.
  - (h) *F* had an accident policy with another company providing for \$100 weekly indemnity. The injury confined *F* to his home for four weeks. Neither company had been notified of other insurance.
  - (i) *F* later purchased another accident policy from the same company, providing a \$50 weekly benefit. *F* was disabled for ten weeks. The policies were subject to optional provision limiting the aggregate indemnity to \$60 per week.
  - (j) *F* was injured and disabled for four weeks. At the time of injury he was 70 years old.
4. Compare the accidental death and dismemberment form with the accident policy.
5. *N* purchased a \$50 weekly health nonconfining policy on June 15. State the company's liability under the following conditions:
- (a) As a result of illness, *N* was confined to his home from November 16 to November 29, inclusive.
  - (b) As a result of illness, *N* was confined to his home from December 10 to December 30, inclusive.
  - (c) On account of illness, *N* was confined to a hospital from November 10, 1946, to November 9, 1947, inclusive. *N* paid \$1,000 to the hospital.
  - (d) On July 15 *N* was disabled and sent to a hospital. He was advised by his doctor on July 30 that as a result of illness he would no

longer be able to use his left foot. *N* paid \$30 weekly for ten weeks for hospital service.

- (e) What if, instead of paying hospital service, *N* had contributed \$10 weekly for nurse service during the time he was in the hospital?
  - (f) *N* became ill on November 10. He was taken to a hospital where he was operated on for mastoiditis. He was confined to the hospital for four weeks. He paid \$100 to the hospital, \$50 weekly to a nurse, and \$300 to the doctor.
  - (g) *N* became ill on January 10 and notified the insurance company on January 30.
  - (h) *N*'s policy provided for a semiannual premium payment on December 15. *N* made this payment on December 20. On December 28, *N* was disabled through illness.
6. (a) *Q* purchased a nonconfining \$50 weekly health policy. What is the company's liability for the following:
- (1) *Q* was confined to his home for ten weeks. Thereafter, though unable to do any work, he was able to leave his home for a few hours each day. This period of nonconfinement lasted 60 weeks.
  - (2) *Q* was confined to his home for four weeks. He did not use any medical services.
- (b) Suppose that, in problem (a), *Q* had purchased a confining health policy?
- (c) What are the coverages of the sickness indemnity policy?
7. *T* had a \$50 weekly automobile accident insurance policy. Discuss the company's liability under the following circumstances:
- (a) While stealing a ride in an automobile, *T* was injured and disabled for ten weeks.
  - (b) *T* was injured while riding in a private passenger automobile.
  - (c) *T* was injured while riding in his friend's private passenger automobile, and he had paid his friend for the use of the automobile.
  - (d) *T* was injured by an automobile truck while walking along a public highway and was disabled for ten weeks.
  - (e) *T* was injured while changing a tire of a private passenger automobile owned by his friend, and was disabled for six weeks.
8. Explain the basis for the classification of risks in accident and health insurance.
9. *M* had a \$250 monthly noncancellable accident and health policy with a three-month waiting period.
- (a) What is the company's liability under the following circumstances:
    - (1) *M* had been sick for ten years and then recovered. Subsequently, *M* became ill again and his sickness continued for one year.
    - (2) *M* was partially disabled for four months due to injury.

- (3) *M* became ill 15 months after he purchased his policy and was confined to his home for six months. *M*'s doctor stated that *M* had suffered from the illness prior to purchase of the policy.
  - (4) The premium for *M*'s policy was due on June 15, when *M* was sick. Subsequently, *M* was ill for a period of five months.
  - (5) *M*, who was 62 years old, was disabled for six weeks.
  - (6) *M* had another accident policy for \$100 a month. *M* was injured and disabled for eight months. During the two years prior to the injury, *M*'s average earnings were \$175 per month.
  - (7) *M* was injured while riding in *B*'s personal plane. *M* was disabled for eight months.
  - (8) *M* slashed his wrist and was disabled for six months.
  - (9) *M* became sick. After his sickness had continued for four months, he was advised to go to Europe. *M* remained in Europe for 11 months.
  - (10) *M* stated in his application that his age was 36. In fact, his age was 40. *M* was totally disabled for 8 months.
- (b) *A* had a noncancellable accident and health policy to age 60, and *B* had a noncancellable accident and health policy to age 65. *A* and *B*, respectively, became ill at age 58. Disability continued for 12 years. For what period of time would benefits be paid under each policy?
  - (c) What additional coverage can be added to the noncancellable accident and health policy?
  - (d) Compare the noncancellable confinement and nonconfinement accident and health policies.
10. (a) Describe the advantages of professional group accident and health insurance.
- (b) The *A Company* had a group accident and health policy. Discuss the company's liability for the following :
- (1) An employee, *B*, earned \$30 per week. In the course of his employment in *A*'s factory, *B* was injured and disabled for ten days.
  - (2) After *C* had been employed by *A* for one month, *C* became ill and was confined to his home for ten weeks.
  - (3) Suppose that, in the previous problem, *C* had been employed three months at the effective date of the group policy.
  - (4) *D*, who earned \$40 per week, was ill for five weeks. *D* did not use any physician during his illness.
- (c) How are rates determined for group accident and health insurance?
11. Discuss the liability of the insurance carrier under the Blue Cross Plan :
- (a) *X* had a family contract. *B*, who was *X*'s son, was confined to a hospital for two weeks. *B* was 17 years old and was married to *D*.
  - (b) *C* became ill and was admitted to a hospital. *C*'s age was 66.
  - (c) *D*, who was admitted to a hospital, requested reimbursement for :
    - (1) nursing service, (2) plaster cast, (3) X-ray treatment.
  - (d) *H* used a private room in a hospital for ten days.

- (e) *I* was admitted to the hospital on January 15 at 10 A.M., and was discharged March 10 at 4 P.M.
- (f) *J* was in a hospital for ten days. His doctor stated that he could be discharged. Nevertheless, *J* remained in the hospital for an additional period of ten days.
- (g) *K* was injured on February 10. He was taken to the hospital for emergency treatment. Ten hours later *K* was permitted to go home. *K* sent notice to the carrier on April 10.
- (h) The carrier requested *L*'s doctor to furnish a copy of the doctor's diagnosis of *L*'s condition. *L* refused to permit the doctor to give the information.
- (i) *M*, who was *A*'s wife, was admitted as a maternity patient on December 10, 1951. *A*'s policy was issued January 4, 1951. *M* was in the hospital for 30 days.
- (j) *N*, who was *A*'s child, was admitted to the hospital on June 10 for a tonsil operation. *A*'s policy had been issued on March 20. *N* was 14 years old. The child remained in the hospital for five days.
- (k) *O* was injured while working for the *D Company*. *O* went to a hospital for ten days.
- (l) *P* was sent by his doctor to a hospital to receive treatment for a mental condition.
- (m) *R* was in the hospital for 20 days. He paid \$100 for medical services and \$150 for nursing services.

## CHAPTER 22

### WORKMEN'S COMPENSATION AND NONOCCUPATIONAL DISABILITY INSURANCE

**Causes and Consequences of Accidents.**—Industrial development has given rise to the use of complicated machinery, from the use of which various accidents result. An analysis of these accidents indicates that the following important factors cause people at work to be injured: (1) inept, careless, or improperly trained employees assigned to operate machinery or other equipment; (2) failure to eliminate or protect against hazardous conditions, including inadequately guarded equipment; and (3) fatigue of employees.

These accidents result in losses to the employer and to society at large, as well as to the employee. The employee may be injured or lose his life, or he may become dependent upon others for support. At least he may lose normal wages during a period of inability to work. For the employer, the injuries to the workman may require the replacing of the employee, which very often means additional costs, since the new employee will require training and may not be able to produce as much work as the one injured. If the accident is a severe one, the department in which the injured was working may be expected to slow down or become demoralized, and sometimes it ceases work for the rest of the day. This, in general, causes additional economic loss to the employer. As to society in general, it is affected by the fact that the injured may become an object of charity.

**Employers' Liability Law.**—Prior to the development of the industrial system, the injured employee could recover from his employer only if he could prove the existence of the following conditions: (1) that he had not assumed the risk of his employment; (2) that the accident was not caused by a fellow-worker; (3) that the injured employee was not negligent; and (4) that the employer was negligent.

The realization soon came that there were many cases where the employee could not possibly see the dangers of the occupation in which he was to engage, and for that reason various legislatures passed a law known as the "Employers' Liability Law," modifying the common law of master and servant. This law placed a number of responsibilities upon the employer in relation to his employees. It required, among other things, that the employer should furnish the employee with proper

working tools, a safe working place, and also with competent fellow employees. The old defense of contributory negligence still remained, however, and resulted, in many instances, in the defeat of the injured employee in an action against the employer. In view of the inability of the injured employee to collect for his injuries, great dissatisfaction arose in this country. Studies were made as to the cause of fatigue. It was discovered that a factor to be considered was the monotony of industrial work which makes the mind lose some of its alertness, and as a result causes or contributes to the occurrence of an accident. The employee did not intend the accident to happen, but the complicated industrial mechanism in which he was involved may have been an important cause of its happening.

The chief objection to the Employers' Liability Law, as has been seen, was the frequent failure of the employee to recover thereunder. A few of the other objections were: (1) The injured employee usually engaged a lawyer to litigate his case, and if it was won, frequently the proceeds were shared; (2) The injured employee could not obtain the cooperation of his fellow employees, because they feared to give evidence in his favor which might be objectionable to the employer; (3) The delay in obtaining judgment often brought destitution to the injured employee; (4) When a judgment was recovered, there seems to have been no standard relationship between the loss suffered and the amount recovered. To a great extent, the amount recovered depended upon the opinion of the jury that heard the case.

**Growth of Workmen's Compensation Insurance.**—Since the defense of negligence frequently defeated the right of the employee to recover for injuries, employers were offered policies known as "workmen's collective policies" which were, in effect, group accident policies. Under these, payment was made whenever an employee was injured during the course of his work, regardless of the question of negligence. Finally, laws known as "workmen's compensation laws" were passed.

**Development and Types of Compensation Acts.**—Workmen's compensation acts recognize the fact that industry should bear the cost of industrial accidents. They not only abolish the common law defenses of the employer, but also provide for prompt adjudication of the claims of injured employees, or their dependents, in case of death. Originally, the purpose of the act was to pay compensation for injuries or death; but today many legislatures also undertake to enact statutory requirements for the safety of employees.

Compensation acts, in the United States, were based upon statutes of European countries which had previously been industrialized. In this country there was difficulty in introducing such legislation. Objections

were raised because the acts abolished the usual defenses of the employer, and because they provided that cases should be heard without a jury trial. The constitutionality of such acts was questioned. The courts have generally recognized them as constitutional, and declared that the rights of the employee under the compensation act are based upon a contractual relationship between employer and employee. In addition to remunerating the workman for his services, the employer, under a compensation act, agrees to pay the employee certain benefits in case of injury arising out of and during the course of his work, and in case of death to pay prescribed benefits to dependents.

As the constitutionality of the act was originally doubted, laws of two types were passed :

**COMPULSORY LAWS.**—This type requires the employer to give his employees protection under the workmen's compensation law.

**ELECTIVE LAWS.**—Under this type the employer has the right to choose the workmen's compensation law or a modified employers' liability law. The tendency is for the employer to choose the workmen's compensation law because by so doing he avoids jury trials. As for the employee, he has the right in some states to reject the compensation law, on condition that he so notify his employer in writing, either at the time he is engaged or at any time before an accident occurs.

**Method of Administration of the Law.**—There are, in general, two methods of administering the act :

1. By a commission. This consists of a body of men, usually appointed by the governor of the state, to hear all cases that come under the workmen's compensation law. In some jurisdictions the commission hears only cases on appeal from its staff members who have first heard the cases. The members of the commission are not necessarily lawyers.
2. By a court. Under this form of administration, cases that come under the workmen's compensation law are heard by a judge or by a referee appointed by the judge.

**Occupations Covered by Law.**—As a rule, the law covers employees engaged in hazardous occupations conducted for pecuniary gain. Certain occupations, notably farming and domestic service, are excluded from some of the laws. Farming is usually excluded on the ground that workmen's compensation legislation is designed primarily for industrial employees. Many legislatures specifically include state employees under the act. Even though an occupation may be neither hazardous nor conducted for a profit, the laws of many states permit the employer to bring

himself within the jurisdiction of the compensation law by so notifying his employees.

**The Employer.**—An employer is usually defined as anyone hiring other people to work for him for the purpose of producing profits. At times there is difficulty in determining whether the relationship is that of employer and employee. A man, for example, may employ a workman to purchase all necessary materials and perform a job without supervision. If the worker is engaged by a number of firms to perform work and is not subject to the authority of any one employer as to his activities, he may be an independent contractor rather than an employee. The definition of employees contained in the statute should be carefully consulted for the exact status of workers, but many borderline cases have had to be submitted to commissions for settlement. In some states members of partnerships are covered by the law, although legally they are employers.

**The Jurisdiction of the State.**—The law covers not only employees injured in the state, but generally also any employee hired in the state and injured while working in another state. The state which usually has jurisdiction over the employee is the one in which the contract of employment was made, although the state in which the accident occurred may also assert jurisdiction.

**Injuries Described by the Laws.**—All injuries under the compensation acts may be grouped into four types, as follows:

**TEMPORARY DISABILITIES.**—These result from injury which disables the worker for a temporary period without leaving any permanent injury.

**PERMANENT PARTIAL DISABILITIES.**—These result from injuries involving, as a general rule, the loss of some member of the body, such as a finger, hand, foot, or eye. Instead of paying benefits for an indefinite period during which the insured may be unable to return to work, benefits for the specific number of weeks provided in the law are awarded. The tendency today is to pass legislation which provides that if the injured is unable to return to work on account of the accident after the number of weeks specified by law, the compensation benefits must be continued for an additional period. Various laws contain specified benefits for disfigurements.

**PERMANENT TOTAL DISABILITIES.**—These result from injuries involving the loss of any two members of the body, such as both hands, both feet, both eyes, or a combination of any two of these, or permanent actual incapacity of the injured, such as a head or back injury.

**OCCUPATIONAL DISEASES.**—The original purpose of the compensation law was to provide benefits for physical accidents. If an employee contracted an occupational disease, such as lead poisoning, he was usually not given any compensation. This has been changed by specifically defining certain occupational diseases as accidents, or by covering all occupational diseases.

**Preexisting Diseases.**—A worker may have a disease which is aggravated as a result of an industrial accident. Generally, the worker is entitled to compensation during the period of disability, although the resultant injury was increased in degree by the pre-existing disease.

**Waiting Period.**—The law usually provides that the injured employee shall not receive benefits until a certain waiting period after injury. This period is variable, and in many laws the waiting period is one week. The purpose of the waiting period is to prevent any malingering on the part of the employee. Under some laws, if the employee is disabled for a protracted period of time, one practice is to pay him from the first day of the injury, thus eliminating any waiting period.

**The Award.**—The injured employee does not receive as compensation the wages that he earned prior to his injury. The practice is to limit the amount of weekly benefits to be paid to the injured workman. This benefit ranges usually from 50% to 80% of the weekly wages, subject to a maximum weekly amount. In addition to the provision for a maximum weekly amount, the law also provides for a minimum limitation. If the percentage of weekly wages produces an amount which is less than the minimum amount stated in the law, the employee is entitled to that minimum amount or to his weekly wages. In addition to the compensation benefits, the injured employee is entitled to medical aid. In some statutes the benefit for medical aid is limited to a definite amount, or is paid for a limited period of time. The tendency, however, is for the legislatures to allow reasonable medical aid for the period that the injured is disabled.

**Rehabilitation.**—When the workmen's compensation laws were first introduced, the benefits allowed were compensation awards and medical aid. Then it was found that, even after the injured employee ceased to be disabled, he might be unable to follow his former occupation. To meet this situation, a number of states have enacted rehabilitation laws. These laws provide that if the injured can no longer follow his occupation, he must receive training from the state in order to be prepared to enter an occupation that he can then follow.

**Method of Paying Compensation Awards.**—While compensation is awarded on a weekly basis, in practice the method is to pay money in

bi-weekly amounts. If payments are to be made over a long period of time, application for payment of the money in a lump sum may be made to the state administrative body. Such applications are not granted unless satisfactory evidence is offered to prove that a lump-sum payment would be beneficial to the injured. In case of lump-sum payments, the insurance carrier is granted a reduction for interest.

**Benefits for Various Types of Injuries.**—If a worker has suffered a temporary disability and is unable to return to work after the required waiting period, the award is paid for the entire time he is disabled, less the waiting period and subject usually to a maximum limit on the amount of compensation payable. If the injured is able to return to work, and he is partially disabled, the percentage benefit paid is based upon the difference between the amount that he earns and the amount that he would have earned if he had not been disabled.

If the injured has suffered a permanent partial injury, the benefit granted is usually for a specific number of weeks stated in the law. For example, under one law the award granted for the loss of a foot is compensation for 205 weeks. The method of making specific payments in many cases is unfair, because there is no accurate measure of the amount of loss that has occurred. Realizing this, some legislation has attempted to measure scientifically the earning power of the injured employee before and after the injury. The difference between the earning power before and after is the basis used in making compensation awards to the injured.

If the injured has suffered a permanent total disability, compensation is sometimes paid for life. If he has had a previous injury at another time and suffers a subsequent injury producing a permanent total disability, he is, according to the laws of some states, provided for as follows: The insurance carrier pays the cost of the second injury. Thereafter, as long as the injured is alive, the state pays him from the proceeds of a special fund comprised of contributions made by insurance carriers out of the funds for death cases in which there were no dependents.

If the worker died as a result of the accident, the award is generally compensation to dependents for approximately ten years. In addition to the compensation benefits, an award is made for funeral benefits. Usually the dependents must be blood relations. In some states, dependents are interpreted to mean anyone supported by the deceased employee. In a number of states, if there are no dependents, an award is made to the state treasurer to provide funds for the payment of benefits to injured workers who have lost one member of their bodies previous to a second injury, resulting in permanent total disability. Such funds are also used for rehabilitation work.

**Medical Benefits.**—Choice of physician. After a worker has suffered an injury he may desire to use his own physician. However, this right depends upon the provisions of the Workmen's Compensation Law. Under some acts the employee has the right to choose the physician.

Other examples of the rights of the employee and employer are as follows: (1) the employer has the right to make the choice, but a change in physicians must be made at the employee's request; (2) the employee can make his choice from a panel of a reasonable number of physicians selected by the employer; (3) the employee, unless he is injured outside the state, has the right to choose from a panel of physicians appointed by the commission upon the recommendation of the state medical society or a medical practice committee appointed by the commission.

**Posting Notice.**—An employer is required to post a notice to inform his employees that he has secured the payment of workmen's compensation benefits for them. This notice must be placed in a conspicuous place. The following information must be contained in the notice: (1) the name of the employer's insurance carrier, (2) the policy number, and (3) the term of the policy.

**Procedure in a Compensation Case.**—The following procedure is observed in the granting of awards: The injured employee must promptly notify both his employer and the state administrative body. If notice is not given, usually in writing, within the period of time required by law, the injured employee may be barred from his compensation award. However, the following will excuse the failure to give notice: (1) the employee became mentally incompetent as a result of the accident or (2) the employer was not prejudiced by the failure to receive notice.

In addition to the notice of accident, the employee must file a claim for compensation after the notice of accident has been received by the state administrative body. The case is then placed on the hearing calendar. The hearings are informal.

**DEFENSES.**—There are generally only two defenses that the employer can offer: (1) that the injury was solely the result of intoxication, or (2) that the injury resulted from wilful intent, on the part of the injured employee, to injure himself or another.

Some statutes also provide that an employee who did not use the safeguards provided for his protection at the time of the accident cannot recover.

**Third Party Action.**—If the injury of the employee was caused by a third party not in the same employ, he has the right to sue the third party for damages. Under some laws, if the employee decides to bring suit

against a third party, the employee must commence suit within a stipulated period after receiving a compensation award. After he commences the third party action, he must file notice with the state, with his employer, and with the insurance company. If he receives as much or more from the third party as he would have received under the compensation law, his employer does not have to pay any benefits. However, if he receives less, the employer must pay the balance of benefits over the amount recovered from the third party. If the employee decides to accept workmen's compensation benefits rather than sue the third party, he must subrogate his rights against the third party to his employer. The employer can then sue the third party.

**Universal Standard Workmen's Compensation and Employers' Liability Policy.**—The legislatures realized that in some cases an employer might suffer, through accidents to his employees, losses so heavy as to affect his financial stability. They therefore provided a system permitting insurance companies to carry the risk of the employer in consideration of a premium. At the present time the insurance companies issue a policy which is practically standard throughout the United States and is known as the "standard workmen's compensation and employers' liability policy."

Many of the states have passed laws requiring certain provisions to be stated in the policy. In one state the law provides (1) that a copy of the policy must be filed with the state; (2) that there must be a ten days' cancellation notice, a copy of which must be sent simultaneously to the state and to the insured; (3) if the insurance company accepts a premium from the insured, liability cannot be denied under the workmen's compensation law, although the employer would not have been required to obtain compensation insurance.

**Basic Declarations.**—The basis upon which the policy is issued is known as the declaration of the employer. In order that the insurance company may properly compute the premium that the insured should pay and decide any other underwriting questions, the following important information must be given: (1) location of premises or work place; (2) nature of the operations performed by the insured; (3) estimated annual pay roll in accordance with the classifications applicable to the operations. The insured must also state the following in the basic declarations:

1. Whether the employer conducts any other operations which are not disclosed in the declarations.
2. Whether any other insurance company canceled any workmen's compensation insurance carried during the past year.

**Policy Provisions.**—The policy covers the following losses :

1. Losses resulting from personal injury or death of employees imposed on or accepted by the employer under the workmen's compensation law. All benefit provisions of each workmen's compensation law covered under the policy become part of the policy, and the company is obligated to pay benefits stated in the law. The policy does not include, however, any workmen's compensation law or plan not cited in the endorsement attached to the policy.
2. Losses resulting from the employer's legal liability to workers employed and injured within the territorial limits of the United States and Canada. As some employees might be able to assert their rights on a tort action in the courts, this policy is therefore also an employer's liability coverage.

**Obligations of the Company.**—The obligations of the company for workmen's compensation benefits are the direct obligations and promises of the company to any injured employee covered by the policy, or in the event of his death, to his dependents. To each such employee the company is made directly and personally liable, and the contract may be enforced by the employee or a dependent in his name or on his behalf. Claims may be brought at any time or in any manner permitted by law against the company alone or jointly with the employer.

The obligations and promises of the company are not affected by the failure of the employer to do or refrain from doing any act required by the policy ; nor are they affected by any default of the employer after the accident in the payment of premiums or in the giving of any notice required by the policy or otherwise. The obligation and promises of the company are not affected by the death, insolvency, bankruptcy, legal incapacity, or inability of the employer ; nor by any proceeding against him as a result of which the conduct of the employer's business may be and continues to be in the charge of an executor, administrator, receiver, trustee, assignee, or other person.

**Services of Carrier.**—The insurance company agrees to serve the employer by inspection of work premises covered by the policy as often as the company deems it necessary, and thereafter to suggest to the employer such changes or improvements as may operate to reduce the number or severity of injuries during work. Upon notice of injuries sustained by the employees, the company must conduct investigations, defend suits instituted against the employer, and make settlements as required by the law. The carrier must further pay all legal costs, the interest accruing after entry of judgment, and all other expenses incurred for investigation, negotiation, or defense.

**Premium.**—The premium is based upon the remuneration earned during the policy period by all employees engaged in the business operations of the employer. The policy covers injuries sustained by reason of the business operations described in the declarations, and includes all operations necessary, incident, or appurtenant or connected with the work, whether the operations are conducted at the work places defined and described in the policy or elsewhere in connection with, or in relation to, the work places. If any operations are undertaken by the employer but are not described or rated in the basic declarations, the employer must pay the premium for such work at the time of the final adjustment of the premium at the rates and in compliance with the rules of the manual of rates in use by the company upon the date of issue of the policy.

The compensation of president, vice-president, secretary, and treasurer of a corporation may have to be included, regardless of the nature of their work, unless it is permitted by law to exclude officers from the benefits of the law and the insured elects to do so in accordance with the requirements of the law.

At the end of the policy period, the actual amount of remuneration earned during the period must be exhibited to the company. At this time the earned premium is adjusted in accordance with the actual amount of remuneration at the rates and in the manner specified in the policy. The adjustment is also subject to a stipulated minimum premium below which the earned premium cannot fall.

**Additional Provisions.**—The following additional provisions are also incorporated in the policy :

1. The employer, upon the occurrence of an accident, must give immediate written notice of the accident to the company, with the fullest information obtainable. He must give like notice with full particulars of any claim made on account of the accident. If any suit or other proceeding is subsequently instituted against the employer, he must immediately forward to the company every summons, notice, or other process served upon him.
2. No action will lie against the company to recover upon any claim or for any loss under employers' liability unless brought after the amount of the claim or loss has been fixed and rendered certain either by final judgment against the employer, after trial of the issue, or by agreement between the parties, with the written consent of the company, nor in any event unless brought within two years thereafter.
3. As in other policies, assignment of the policy does not bind the company unless the consent of the company is endorsed on the policy.

4. If the employer should carry any other insurance covering a claim covered by the policy, he cannot recover from the company a larger proportion of the claim than the sum insured bears to the whole amount of valid and collectible insurance.
5. The company must be subrogated, in case of any payment under the policy, to the extent of payment, to all rights of recovery vested by law either in the employer or in any employee or his dependents, against any persons, corporations, associations, or estates.

Various endorsements may be attached to the compensation policy to supplement or modify the contract, as may be required in individual cases. To illustrate a few of the endorsements, reference will be made to several used in New York and other states :

1. New York Standard Endorsement.
2. Overtime and Limitation of Remuneration Endorsement.
3. Premium Discount Endorsement.
4. Endorsement Eliminating Statutory Medical Aid.
5. Excess Medical Endorsement.
6. Endorsement Excluding Specified Individuals.
7. Voluntary Compensation Endorsement.
8. United States Longshoremen's and Harbor Workers' Compensation Endorsement.
9. Blanket Classification Endorsement.
10. Broad Medical Expense Endorsement.
11. Athletic Endorsement.
12. Extraterritorial Endorsement.

**1. New York Standard Endorsement.**—The purpose of this endorsement is to modify the various provisions printed in the body of the workmen's compensation policy in order to conform to the New York law and to the regulations of the Compensation Insurance Rating Board. This board determines rates for workmen's compensation insurance carriers operating in New York State. The New York endorsement contains :

**CONTRACTORS.**—When the insured or policyholder is a contractor engaged in a hazardous employment, and when he subcontracts all or any part of his contract to one or more subcontractors, the remuneration of employees of any subcontractors is included in the return of remuneration upon which the premium is computed. The same rule applies to the employees of a contractor with whom the policyholder, as an owner of timber other than on farm land, contracts to perform work involving hazardous employment.

Remuneration, as thus reported, is considered the remuneration of the insured employee and is governed essentially by the same terms, conditions, and requirements as the remuneration of direct employees of the policyholder.

When a contractor or subcontractor of the policyholder has secured compensation for his employees, as provided by the workmen's compensation law, the policyholder is not governed by the above rule. Proof of the security must be submitted by the policyholder to the company in the form of a certificate signed by the insurance carrier which undertook the contractor's or subcontractor's risk.

**EMPLOYER COVERAGE.**—Every executive officer of a business corporation is considered an employee, irrespective of the nature of his duties.

The entire remuneration of each executive officer coming within the plan must be disclosed, subject to a maximum individual remuneration of \$100 per week if his actual remuneration is a greater amount. In the event an executive officer serves without compensation or at less than \$30 per week, the premium is based on a minimum individual remuneration of \$30 per week. The remuneration of each executive is assigned without division to the highest rated classification applicable to any duty which engages him for any part of his time.

**LOSS AND EXPENSE CONSTANT.**—A study of workmen's compensation statistics indicates that risks producing small premiums apparently have a higher loss ratio than those producing large premiums. To correct this condition, an extra charge, called the "loss constant," may be added to risks which produce premiums below a certain amount. Furthermore, the expense charge which is part of the manual rate is on a percentage basis disregarding the amount of premium produced by the insured. In order to correct an indicated disproportion in actual expense cost as between small and large risks, an expense constant may also be added to risks which produce a premium below a certain amount. For example, the New York standard endorsement provides that where the premium, calculated by applying authorized rates to the annual pay rolls, is less than \$500, a charge known as the "loss and expense constant" is added to the premium, as shown on the New York rate sheets. If, however, the application of the loss and expense constant produces a total premium exceeding \$500, the loss and expense constant is reduced to an amount which will provide a total premium of exactly \$500. No loss and expense constant is charged on a policy where the earned premium calculated by applying authorized rates to the total annual pay rolls for operation in New York equals at least \$500.

**INSPECTION AND AUDIT.**—The company and the compensation rating board are permitted at all reasonable times during the policy period to inspect the plants, works, machinery, and appliances covered by the policy, and are permitted during the policy period and any extension thereof and within three years after the final termination of the policy to

examine the employer's records which indicate remuneration earned by employees of the employer or other persons covered by the policy, or which show or tend to show the premium payable.

**RATES.**—The policy is issued by the company and accepted by the employer subject to the rate manual and rating plans established by the Compensation Insurance Rating Board and approved by the Superintendent of Insurance. Classifications and rates of premium are subject to correction or modification in accordance with changes in the rate manual and rating plans. Any correction or modification is expressed by an endorsement stating the effective date of the change.

**ASSUMED LIABILITY.**—The obligations of the company under the employers' liability section of the policy are limited to the liability imposed by law upon the employer for negligence, and do not include any liability assumed by the employer under any contract entered into with any other person, association, or organization.

**DISEASE.**—The employer may be held liable for disease caused by his industrial operations. If such loss due to disease is not covered by the workmen's compensation law, the standard endorsement provides that the employer's coverage is extended to indemnify the employer against loss by the liability imposed upon him by law for damage on account of disease, including death at any time resulting from the disease, subject to a specified limit. This provision does not apply to any obligation requiring the employer to provide transportation, wages, maintenance, and cure in a maritime employment under the admiralty jurisdiction of the United States.

**2. Overtime and Limitation of Remuneration Endorsement.**—In view of the fact that wages may be paid for overtime work and that some employees may earn over \$100 per week at regular rates of wages, the overtime and limitation of remuneration endorsement eliminates premium charges for wages above the regular rate earned during overtime, and also for wages at regular rates in excess of \$100 per employee. The endorsement in substance follows the provisions of the manufacturers' and contractors' policies and provides for the following:

1. If the employer's books are maintained so as to show separately, by employee and by classes of work covered by the policy,
  - (a) the remuneration earned at regular rates of pay for total hours worked, and
  - (b) extra remuneration earned for overtime, the remuneration upon which the premium for the policy is based will include all remuneration at regular rates and will not include any of the remuneration for the extra remuneration for overtime.

2. If the employer's books are maintained so as to show separately, by employee and by classes of work covered by the policy,
  - (a) the remuneration earned at regular rates of pay for those hours worked when there is no overtime, and
  - (b) the remuneration earned at regular rates of pay and for overtime for those hours worked when there is overtime,
 the remuneration upon which the premium for the policy is based will include all remuneration for regular hours when there is no overtime, and two-thirds of the remuneration when there is overtime.
3. "Overtime" means those hours worked when there is an increase in rate of pay because of holidays, Saturdays, Sundays, the number of days worked in any one week, or the number of hours worked in any one day.
4. If the employer's books are maintained so as to show separately, by employee and by classes of work covered by the policy, the total remuneration earned by all employees whose individual average weekly remuneration for the total time worked during the policy period exceeds \$100 per week after deductions, if any, permitted for overtime, there will be excluded from the remuneration upon which the premium for the policy is based that part of the remuneration of each employee that is in excess of an average weekly remuneration of \$100 per week. A part of a week will be considered as a full week in determining the average weekly remuneration.

If the employer is a corporation, the provisions of the foregoing paragraph do not apply to the remuneration of the president, of any vice-president, secretary, treasurer, and other executive officers elected or appointed in accordance with the charter and by-laws of the corporation. The remuneration of such employees is covered by the New York Standard Endorsement, as explained previously.

**3. Premium Discount Endorsement.**—The cost of issuing and handling policies for employers with large premiums, as for example over \$1,000, is less than the cost for concerns producing a premium below \$1,000. Therefore, by endorsement, a premium discount is allowed for risks producing a premium over \$1,000. The endorsement provides for :

1. The premium computed in accordance with the provisions of the policy, other than the premium discount endorsement, is known as the New York Standard Premium.
2. Discounts :

<i>New York Standard Premium</i>	<i>Stock Carriers</i>	<i>Nonstock Carriers</i>
First       \$ 1,000	None	None
Next        4,000	8.1%	2.3%
Next       95,000	13.4%	5.4%
Over       100,000	14.9%	5.4%

**4. Endorsement Eliminating Statutory Medical Aid.**—An employer may desire to pay the medical costs instead of having the com-

pany do so, and thus obtain a lower rate. Under such circumstances the insurance company will pay only the weekly benefit to the employee. When the policy is so endorsed, the endorsement provides for the following :

1. The employer undertakes to comply with all the requirements of the New York State Workmen's Compensation Law, and such other workmen's compensation laws as may be applicable, respecting the medical care of injured persons, including medical, surgical or other attendance or treatment, nurse and hospital service, medicine, crutches and other appliances and apparatus. The employer must save the company harmless from any loss as respects the medical care of injured persons either under the requirements of the workmen's compensation laws or by reason of the liability imposed upon the employer by law for damages.
2. The employer must maintain upon the premises a dispensary or an emergency hospital including medical or surgical service, attendants, appliances, and apparatus prescribed by the company in conformity with the rules of the New York Manual of Rules, Classifications and Rates for Workmen's Compensation and for Employers' Liability Insurance.
3. As the employee must receive compensation benefits and medical benefits, the endorsement is an agreement between the company and the employer and does not alter or waive any rights accruing to any employee.
4. During the time that the employee may be entitled to medical benefits, the employer may become bankrupt. Therefore, in the event of the insolvency or bankruptcy of the employer, which necessarily and unavoidably prevents him from complying with the provisions of the endorsement, all losses incurred by the company for medical care become the immediate obligation of the employer and constitute a valid and incontestable claim against the employer's insolvent or bankrupt estate.

**5. Excess Medical Endorsement.**—Instead of paying the entire medical cost for each claim, an employer may desire to limit his liability to \$2,000 in connection with any one case. Under such circumstances, the excess medical endorsement provides for the following :

1. Upon notice and proof that the employer has furnished at his own expense or paid for medical care under the provisions of the statutory medical aid endorsement in an amount exceeding \$2,000 on account of injuries sustained by any one person as a result of any one accident or disablement of any one person due to an occupational disease, the company, in each such case, will indemnify the employer for only that part of the amount which is in excess of \$2,000. The employer, periodically and in accordance with the re-

- quirements of the company, will render a written statement showing the amount of indemnification for medical care to which he is entitled.
2. In each case where it appears likely that the losses as respects medical care will exceed \$2,000, the employer will promptly send written notice to that effect to the company. As respects each case, the employer can default no issue, make no voluntary statement, nor confess to a judgment without the written consent of the company.
  3. The premium for the endorsement will not be subject to any premium discount or retrospective premium endorsement forming part of the policy, nor will losses under the endorsement be subject to any retrospective premium endorsement, nor will the experience developed under the endorsement be subject to experience rating. The retrospective premium will be discussed on page 671.

**6. Endorsement Excluding Specific Individuals.**—Under certain circumstances a worker may not receive any form of remuneration, as, for example, a young boy who works for his father after school hours or occasionally. In such cases, if the policyholder insists that the worker is not an employee, an exclusion endorsement may be attached which provides that the employer warrants that certain persons named in the endorsement have not entered into any contract of hire with and will not receive any wages, board, lodging, or other form of remuneration from the employer for services rendered in connection with operations covered during the term of the policy. Each of the persons is excluded from all of the provisions, undertakings, and coverage of the policy.

The company will make no premium charge in respect to the named persons, and the employer will indemnify and save the company harmless from any loss sustained because of any claims arising from injuries to any of such persons.

**7. Voluntary Compensation Endorsement.**—An employer may desire to include employees under the law who are not covered by the workmen's compensation law. The voluntary compensation endorsement therefore provides for the following:

The workmen's compensation law may not include some or all of the employments defined in the employer's policy. If the pay roll of employees in such employments is included in the policy, and if an employee sustains injury or death in the course of an employment described in the policy, and his employment is not included in the workmen's compensation law, but the injury or death was sustained under circumstances which would have rendered the employer or the company liable for compensation and other statutory benefits if the employment was included in the workmen's compensation law, then the company agrees voluntarily to pay, on behalf of the employer, the statutory benefits that would have

been paid if the injury or death had been sustained in any employment included in the workmen's compensation law.

In consideration of the voluntary payments, and as a condition precedent thereto, the injured employee or any persons claiming by, through, or under him must execute a full release of all claims for damages against the employer in the manner required by the company, and, in addition, execute an assignment to the company of any right of action available to any of them against any one other than the employer who is or may be liable for the injury or death. If death of the injured results after a period of disability, death being due to the injuries, and anyone claiming by, through, or under the injured, accepts any voluntary payment provided for in the endorsement which accrues after the death, the acceptance of the payment operates to estop the person so accepting from asserting that the release or assignment is not binding upon him.

If the company proceeds upon the assignment and recovers and collects a judgment against the party at fault in excess of the amount of compensation and other statutory benefits voluntarily paid and incurred under the endorsement, the company will first take the necessary expenses of any procedure to collect, and pay any remaining balance of the excess so obtained to the person or persons executing or affirming the assignment. The company has full power and discretion to proceed against the party at fault or to settle with the party upon such terms as may seem desirable to the company, either without litigation or during the pendency of litigation.

If the injured employee or any person claiming by, through, or under him refuses to accept the voluntary payments offered under the provisions of the preceding paragraphs, then the company may withdraw the proposal without notice. Under such circumstances the company will no longer be bound by the undertakings stated above. If any action or demand is brought against the employer or any other person or organization for damages for injuries or death, the claim, suit, or demand will be considered as a refusal to accept the voluntary payments and the obligations of the company, as expressed under the employer's liability coverage of the policy, will be available to the employer and will be and remain the obligations of the company as fully and completely as if the endorsement had not been written.

**8. United States Longshoremen's and Harbor Workers' Compensation Endorsement.**—This endorsement applies to workmen who come within the provisions of the United States Longshoremen's and Harbor Workers' Compensation Act. In this endorsement the company agrees to abide by all provisions of this act and by all lawful rules, regulations,

orders, and decisions of the United States Employees' Compensation Commission and of the Deputy Commissioner having jurisdiction.

**9. Blanket Classification Endorsement.**—After the policy has been issued, the policyholder may undertake new types of work which are not described by any classification listed in the policy. This condition can be met through the blanket classification endorsement which provides that the company is liable for all business operations of the employer, whether or not such operations are listed in the declaration of the policy.

**10. Broad Medical Expense Endorsement.**—In many states, payment for medical, surgical, nurse, or hospital service is limited by statute. By endorsement, the amount can be increased to meet the needs of the employees of the insured.

**11. Athletic Endorsement.**—The question may arise as to whether or not an employee engaged in athletic activity on behalf of the employer is entitled to compensation benefits. This situation can be avoided by the athletic endorsement. This endorsement extends voluntary workmen's compensation benefits, including medical and hospital costs, to any of the employees of the insured who are injured while playing or practising any athletic activity sponsored by the insured. However, no payments will be made to any person who rejects the offer of such payment or refuses to execute an effective common law release with subrogation to the company of his rights against any third party.

**12. Extraterritorial Endorsement.**—An employer may open a new plant or a new store in another state. Automatic protection can be provided for coverage in other states except for those in which compensation benefits are payable only through the state insurance fund.

**Insurance of Undesirable Risks.**—An employer might be considered an undesirable risk, due to his poor loss experience or some other cause. In the various states where there are state funds, the coverage must be given to the employer by the state fund upon application. In some states where stock and mutual companies operate, the companies have developed a plan known as the "assigned risk rating plan," for risks which cannot obtain the necessary insurance on application to individual insurance companies. This plan is similar to the automobile assigned risk rating plan discussed on page 586. Under this plan the insurance carriers are required to accept various risks which are assigned to them.

**Accident Prevention.**—Various agencies are interested in the prevention of accidents, including industrial, public, and home accidents. Though certain of these organizations, such as the manufacturers of safety guards and devices, are active in this field for the profit involved, nevertheless they perform a valuable service to the community by devel-

oping the various forms of highly effective and efficient safeguards which, when properly used, reduce the accident frequency and accident cost. These concerns make detailed and technical studies of the various causes of accidents, and the guards and safety devices which they develop are the result of these investigations. Other agencies are educational. The National Safety Council, for example, issues pamphlets and educational literature for distribution to factories, schools, and the general public. They sometimes use motion pictures and lantern slides showing different subjects pertaining to accident prevention.

The American Society of Safety Engineers, the engineering section of the National Safety Council, consists of members in various parts of the country who devote themselves to safety engineering. They study the causes and effects of all forms of industrial and public accidents and occupational diseases, and devise preventative methods based on engineering standards and education. The Society, at the request of state departments, draws up safety codes. It holds conferences throughout the country for the benefit of members, and the latest developments in accident prevention are discussed by the best engineers in the field.

The American Museum of Safety has permanent exhibits.

The International Association of Industrial Accident Boards and Commissions has as its primary purpose the standardization of reports of industrial accidents in the different states. This standardization is designed to promote a study of the causes and effects of various accidents, and to obtain comparable statistics for various states. Studies are also made to determine means of reducing accidents, the cost of conducting industrial hospitals, and other factors.

The state governments are actively interested in accident prevention through their departments of labor. They sponsor statutes prohibiting minors from working at dangerous occupations, and provide for the safeguarding of workers. In addition, many states carry on educational campaigns in which state representatives visit factories and give lectures to the employees, using motion pictures and safety literature.

Some of the large employers of labor have become actively interested in industrial accident prevention and are conducting effective safety work in their plants and among their employees without outside assistance. Where this safety work has been carried on in a sincere manner, results have been gratifying.

The contribution of the insurance companies to accident prevention has been made through inspections, recommendations for safeguarding equipment, and the use of merit rating plans.

**Merit Rating Plans.**—It is a fact that two employers, in the same industry and with the same pay roll, may have plants with varying physical conditions. One employer may closely guard the safety of his

employees, and the other may give little attention to this matter. Frequently, the attitude of the employer toward safety is reflected in his loss experience.

Two merit rating plans that are employed to induce employers to pay attention to the physical condition of their plants and minimize losses are the following:

1. Experience Rating Plan, which adjusts the premium on the basis of the past loss experience of the individual employer.
2. Retrospective Rating Plan, which gives weight to the loss experience in the current policy year of the individual employer.

It must be remembered that the manual rates in compensation insurance represent the average rates in the various industries, described by the respective classifications. Merit rating increases or reduces the manual rate, in accordance with the plant or operating conditions and the loss experience of the employer. The scheme therefore offers an incentive to the employers of labor to prevent accidents by improvement of their plants and practices and by encouraging proper morale among their employees.

**Experience Rating Plan.**—As the manual rate is an average rate for the classification of operations, it may not be precisely an index of the risk assumed by the insurance carrier in covering a given employer. Therefore due recognition is given to qualified employers with risks which produce losses below the expected or normal, and those which produce greater losses. To effect this, the experience rating plan is used, though not for risks producing a small amount of premium. For example, in one state the experience rating plan is applied if during the last year of the experience period that is considered the pay roll developed a premium of \$1,500 or more based upon manual rates, or the pay roll during the last two or more years developed an average annual premium at manual rates of at least \$750. To ascertain the variations from the manual rate, a comparison is made of the past experience of the insured as developed with the expected experience reflected by the manual rate.

The experience period that is considered in the state is not less than one year nor more than three consecutive years terminating one year prior to the date on which the adjusted rates will be effective. Consequently the plan is not available until an employer has been in business at least two years. The experience for the year immediately prior to the effective date of the adjusted rates is excluded.

**EXPERIENCE RATING RULES.**—Various problems which have arisen in the operation of experience rating plans have been met by the codification of certain rules. A few of the more important may now be considered by reference to one state.

1. *Combination of Risks for Experience Rating.* Separate legal entities constitute separate insureds, and each operation constitutes a separate risk. For the purpose of this rule, a copartnership or an unincorporated association, as such, is considered a separate legal entity. Two or more entities will not be combined for rating purposes. However, combinations will be made as respects entities in each of which the same person, group of persons, or corporation owns at least  $66\frac{2}{3}\%$  of the voting stock or constitutes at least  $66\frac{2}{3}\%$  of the membership if no voting stock is issued. In addition, if two or more entities are merged or consolidated so that the proprietary interest of each becomes identified with the merged unit, the incurred experience of all the entities so merged will be combined for rating the merged unit. If an employer who has sold or disposed of a part of the assets continues to operate, all experience incurred prior to the sale or disposal will be used in rating the risk.

2. *Use of Past Experience.* The experience incurred by any employer will be included in the rating of the risk, regardless of any change in operations, name, ownership, control, or management. If an employer has discontinued operations, the incurred experience will be included in rating his future operations whether under the same or a different name. However, the incurred experience will not be used (except in mergers or consolidations as explained above) under the following:

- (a) If the risk has been acquired by an entity which is an individual, copartnership, or unincorporated association, the sole owner or the majority of the owners of which held no ownership interest in the risk prior to its acquisition.
- (b) If the risk has been acquired by an entity in its fiduciary capacity which is vested with the right to operate the business or property and held no ownership interest in the risk prior to its acquisition.
- (c) Where the conditions in (a) or (b) obtain, except that the sole owner or the majority of the owners of the acquiring entity individually held an ownership interest in the risk prior to its acquisition, which interest collectively did not exceed  $33\frac{1}{3}\%$ .
- (d) If the risk has been acquired by a corporation the majority interest in which is vested in a group of new owners.
- (e) If an existing corporation has been reorganized so that the majority interest is vested in a group of new owners.
- (f) Where the conditions in (d) or (e) obtain, except that the majority interest is vested in a group of owners who individually held an ownership interest in the risk or corporation prior to its acquisition or reorganization, which interests collectively did not exceed  $33\frac{1}{3}\%$ .

**Retrospective Rating Plan.**—The experience rating plan depends upon the past experience of the insured. An employer meeting certain

minimum premium requirements, who believes he will have an excellent current experience, may, however, wish to give immediate effect to this experience. The retrospective rating plan was designed for this purpose.

The insured has the option of using the plan for all his operations on an interstate basis, or of limiting it to operations in a specific state, subject to acceptance by the insurance company. The insured must express his choice before the inception date of the policy.

If the employer does accept the retrospective rating plan, the premium for the current policy is adjusted after the termination of the policy period. Losses are then valued as of a date 18 months after the rating date. The premium for the current policy period will be less or more than the premium at standard rates, subject to certain limits, depending upon the losses developed for the period. The adjustment may be final if all cases are closed or if it is apparent that the premium will exceed the maximum retrospective premium. If the adjustment is not final, another adjustment will be made 12 months later. There is a possibility of another subsequent adjustment.

**Nonoccupational Disability Insurance.**—While workmen's compensation insurance is designed to provide disability benefits to employees injured in the course of their work, the act does not protect the worker against loss of wages because of illness or accidents which do not arise from his employment. If a worker falls in his own home and injures himself to the extent that he is prevented from working, or if he becomes ill and must stay at home, his family will suffer the consequences of his loss of earnings. To meet this problem, several states have enacted disability benefit laws. These laws require the employer to insure his workers against partial loss of earnings because of a disability arising out of an accident or illness not in the course of his employment.

In this chapter, the law of one state and interpretations will be discussed to illustrate the coverage required by the law.

**OCCUPATIONS COVERED BY LAW.**—As a rule, any employer in the state who employs four or more workers full time or part time on each of thirty or more consecutive or nonconsecutive days in any calendar year is required to carry disability insurance for the benefit of his employees. Coverage must be provided for all workers, including corporate officers, who receive remuneration for their services. However, certain workers are excluded. Some of the groups excepted are:

1. The spouse or minor children of the employer who work for the employer.
2. Members of religious orders, workers for religious, charitable, educational, and nonprofit organizations, local government agencies, municipal corporations, the state, other political subdivisions or authorities.
3. Nominal corporate officers and directors receiving no remuneration.

4. Farm workers.
5. Caddies.
6. Employees subject to the Federal Railroad Unemployment Insurance Act.
7. Officers and crews of vessels on the navigable waters of the United States or outside of the United States.

A student who works part time during the year or full time for part of the year is also excluded from coverage under the law. Anyone who is not in the regular labor market, but who works during limited holiday seasons for less than forty-five working days during a single period, is not a covered employee. If there is any question as to coverage, the employer must prove that the employee is to be excluded from the statutory benefits.

A worker who supplies his own material and who does his work under contract for more than one person is deemed to be an independent contractor as in the workmen's compensation law. There is no provision for disability benefits for such persons. Domestic workers must be covered, the same as industrial workers, when a single employer hires four or more domestic workers. If an employer has three employees in his business and one maid in his home, each employment is separate from the other and the employer does not have to provide benefits for any of his four employees. Any employer, however, may voluntarily provide his workers with disability benefits.

**ELIGIBILITY FOR BENEFITS.**—To be entitled to benefits, a worker must be employed for at least four consecutive weeks by one or more covered employers immediately preceding the disability period. If the covered employee leaves his job, he is automatically insured for disability benefits during the first four weeks of unemployment under the insurance of his last employer. If an unemployed person becomes disabled more than four weeks after he leaves covered employment, and if he is unemployed at the time of his disability, he may collect disability benefits under certain conditions from a special fund created by assessments against employers (or their insurance carriers).

**WAITING PERIOD.**—No benefit is payable for the first seven days of disability. The first disability benefit is paid at the termination of one week after the end of the waiting period (fourteenth day), and thereafter benefits are payable biweekly. Disability benefits for a portion of a week are paid on a prorata basis.

**BENEFITS.**—As stated above, an employee is entitled to disability benefits if he is absent from work for more than seven consecutive days due to a nonoccupational disability. If an employee is disabled and he cannot work at his own job, but his employer can give him some other

similar work without decreasing his earnings, he is not entitled to benefits under the law. The benefit required by the law is 50% of the employees' average weekly wage during the eight weeks preceding disability. The maximum benefit is limited to \$26 per week. The minimum benefit is \$10 per week, or the actual wage if less than \$10 per week. Payment of benefits to any one employee is also limited to thirteen weeks in any fifty-two consecutive weeks. An employer, if he desires, may voluntarily provide more extensive benefits. A recurrence of a disability within three months from the original disability is considered to be part of the initial disability period and is not subject to the seven-day waiting period. An employee must notify his employer that he is disabled within fifteen days from the commencement of his disability, and he must provide medical proof of his disability within twenty days from the start of the disability. The employee must submit to a medical examination at the request of the employer, the insurance carrier, or the Chairman of the Workmen's Compensation Board.

**WAIVER OF BENEFITS BY MEMBERS OF RELIGIOUS GROUPS.**—An employee adhering to a faith or to the teaching of any church who by the tenets of his creed depends for healing upon prayer or spiritual means, may file a waiver of benefits with his employer and the Chairman of the Workmen's Compensation Board (which body administers this law). When such a waiver is filed, the employer is not required to provide benefits for that employee, and no pay-roll deduction can be made from the employer's pay.

**EXCLUSIONS.**—No benefits are payable under the following conditions: (1) Unless the disabled person is under the care of a physician; (2) for disability caused by pregnancy (unless voluntarily included by the employer), except when disability occurs after return to employment with a covered employer for a period of two consecutive weeks following the termination of pregnancy; (3) for self-inflicted injuries or sickness, or for disabilities incurred in the performance of an illegal act; (4) while the employee performs work for remuneration or profit; (5) while the disabled person is entitled to receive from his employer (or from a fund to which his employer has contributed) an amount at least equal to the disability benefits; (6) for any period during which the employee is subject to suspension or disqualification under the Unemployment Insurance Law of the state; (7) for any disability due to an act of war; (8) for any week during which benefits are payable under an unemployment insurance law of any other state or of the United States, or for any period for which allowances are payable under any workmen's compensation law or other type of disability law.

If disability benefits are payable to an injured worker, the benefits will be reduced by the amount of any (a) Federal old-age and survivor's in-

insurance benefits; (b) annuity or pension provided by the employer who is also liable for the payment of the disability benefits; or (c) permanent disability benefits or annuity under an employer or government program, except a veteran's disability program.

**METHOD OF INSURING.**—An employer may choose one of three methods, or a combination of them, to meet the requirements of the law. The three methods are:

1. Insurance by paying a premium (a) with a private insurance company authorized to do business in the state or (b) with the State Insurance Fund.
2. Self-insurance, by posting a bond or securities with the state as proof of financial responsibility.
3. Use of a private plan, such as a Union Welfare Plan.

A combination of any of these plans may be necessary when the employer has an acceptable union welfare plan for the benefit of his employees who are union members. However, he must provide coverage for all employees, including executive officers if a corporation, who are not union members. To cover the nonunion employees, for example, the employer may purchase disability insurance by paying a premium to an insurance company, and limit the coverage under the policy to all employees not covered by the union plan.

**PREMIUM BASIS.**—When an employer provides disability insurance by paying a premium to an insurance company, the premium is based on the amount of wages each covered employee earns. The term "wages" includes any remuneration for employment paid by the employer to his employees, whether paid directly or indirectly, including salaries, commissions, bonuses, and the reasonable money value of board, rent, housing, lodging, or similar advantage received. Where "tips" or gratuities paid by persons other than the employer customarily constitute a part of an employee's remuneration, the value of the "tips" or gratuities is included as pay roll for the purpose of this law. Severance pay not required legally is excluded. Any extra benefits, such as hospitalization plans, life insurance, or retirement contributions made by the employer, are not considered to be part of the pay roll under the law. The above definition of the term "wage" also applies when determining the benefit payable to a disabled worker.

The premium charge is either a percentage of the employee's wages or a flat rate per employee. The cost of the insurance is borne by the employer, but the employer is entitled to deduct from the wage of his employee not more than one half of one per cent of that part of the employee's wage which does not exceed \$60 per week. The money so collected may be used by the employer to offset part of the cost of the insurance, but he must contribute any cost over that amount. The employer

is entitled to make this deduction, regardless of the method adopted to meet the act. Deductions from wages are generally made weekly, but they may be made biweekly, semimonthly or monthly, but not at intervals less frequent than one month. If the employer so desires, he may pay the entire cost of the insurance and not make any deduction from the employees' wage.

**NOTICE OF COMPLIANCE WITH THE LAW.**—Whichever method the employer uses, he must post a notice in a conspicuous place informing his employees that he has, and in what manner he has, complied with the law.

### QUESTIONS AND PROBLEMS

1. (a) Describe some of the causes producing industrial injuries.  
(b) Explain the losses to employees, employers, and society resulting from industrial injuries.  
(c) List the objections to the employers' liability law.  
(d) What is the purpose of a state compensation act?  
(e) Describe the various forms of compensation acts passed by legislatures in this country.
2. (a) *A* was employed by the *B Manufacturing Company*; *C*, by the *D Charitable Society*; *E*, by *F*, a farmer; *G*, by *H*, as a servant in *H*'s home. Discuss the rights of these employees to compensation benefits for injury during the course of their employment.  
(b) *A* was usually employed by various painting contractors. *B*, the owner of a factory, requested *A* to repaint his factory. *A* and *B* entered into an agreement whereby *A* was to be paid \$250 for the painting job, including paints and other material necessary to complete the job. During the course of the work, *A* was injured at *B*'s factory. Discuss the rights of *A* to compensation benefits.  
(c) *A*, residing in New Jersey, was hired by *B*, in New York, to sell throughout the United States the goods of *B*, whose factory was in New York. While traveling in Mississippi, *A* was injured in the course of his work. Under which state law is *A* entitled to compensation benefits?
3. (a) *A* had injured his hand in a previous accident and had completely recovered. He returned to his job and subsequently went to work for *B*, a new employer. He was again injured. The doctor representing *B* claimed that the second injury was aggravated by the first injury. What are the rights of *A*?  
(b) Explain how the benefits payable under the following circumstances are determined:  
(1) *A* was injured while working in *B*'s factory on June 15. As a result of the injury, *A*'s index finger was removed by an operation. The schedule of benefits for the loss of an index

finger under the law is 60 weeks. *A* returned to work on August 1.

- (2) *A*, who had worked for *B* for several years, became ill. The illness resulted from poor ventilation in *B*'s factory.
  - (3) *A*, who worked for *B*, was injured during the course of his employment on June 15. *A* returned to work on June 17.
  - (4) State *A*'s rights in the case just presented if he had returned to work on August 22.
- (c) How is the compensation benefit scale generally determined?
4. *M*, a carpenter, was injured while working for *B*, his employer. Discuss the basis of determining compensation benefits under the following conditions:
- (a) At the end of his period of disability, *M* could not do work as a carpenter.
  - (b) *M* lost his hand. Under the law, *M* was awarded benefits for 288 weeks at \$20 per week. After *M* had collected payments for 20 weeks, he requested the balance due to him in a lump sum. The state investigated the reason for the request and ascertained that *M* desired to open a small retail store.
  - (c) *M* was injured on June 15. *M*'s average weekly wages were \$30 per week. On June 30 *M* was able to return to work. However he was able to work only part of the week and earned \$12 weekly. By July 15 *M* was able to work the entire week and earned his regular wages.
  - (d) As a result of the accident, *M* lost the use of his right foot. In a previous accident, *M* had suffered the loss of his left foot.
5. (a) *R* was killed while working for *B*, his employer. Benefits were claimed by *C*, his wife; by *D*, a son 15 years old; by *E*, a crippled son 24 years old; and by *F*, a wealthy friend. Discuss the basis for determining the compensation benefits.
- (b) What if *R* had no dependents in the above case?
6. *F* was injured during the course of his work. *F* went to his own physician, *B*, for medical treatment. *B* sent his bill for \$120 to the *C Insurance Company*, which was the carrier for *F*'s employer.
7. What information must be posted by the employer indicating compliance with the compensation law?
8. Discuss the company's liability for the following:
- (a) *Q* was injured on June 15 while working for *B*, his employer. *B* claimed that *Q* had come to work in an intoxicated condition.
  - (b) *Q* was injured while working at a stamping machine for *B*, his employer. The machine had a guard which *Q* removed in order, as he claimed, to do more work. While *Q* was attempting to remove a piece of metal from the machine, his hand was injured.

9. (a) *T* was employed by *B*, a manufacturer, to drive *B*'s truck. While driving the truck, *T* was injured in a collision with an automobile driven by *C*. *T* sued *C* for \$5,000. The jury decided that *T* had been negligent, and that *C* was consequently not liable. Discuss the basis for determining *T*'s compensation benefits.
- (b) State the basis for determining compensation benefits in the case just presented if *T* had recovered \$2,500, and if his benefits under the compensation law would have been \$2,000.
- (c) What if *T* had recovered \$1,000, and if his benefits under the compensation law would have been \$2,000?
10. (a) What information must be given by the employer to the insurance company in order to obtain a workmen's compensation policy?
- (b) Explain the obligations of the insurance company and the employer in the following:
- (1) *X* was employed by the *B Company*. *X* was injured while working for *B*. *X*'s occupation was not covered by the compensation act. *X* sued *B*.
  - (2) *L* was injured while working for *D*. *D* was insured by the *E Company*. Subsequently *D* became bankrupt. *D* had not paid his premium.
  - (3) The *F Company* manufactured tinware. Thereafter the *F Company* commenced to manufacture electrical appliances. *C* was injured while making one of the electrical appliances. The company demanded premium for the electrical apparatus operations.
  - (4) *M* was the president of the *B Corporation*. While *M* was in his office, a wall collapsed and he was injured.
  - (5) *B*, an employer, failed to give the company notice that *D*, an employee, had been injured. *D* obtained an award of \$850.
- (c) What services are performed by a carrier of workmen's compensation insurance?
11. (a) Explain the obligations of the employer and the carrier under the state endorsement for the following:
- (1) *A*, who was a contractor, agreed to erect a factory for *B*. *A* sublet the carpentry work to *C*. *D*, a carpenter, was injured while working for *C*.
  - (2) *A*, the president of the *X Company, Inc.*, of New York, was injured while in the manufacturing plant. His salary was \$110 per week.
- (b) Explain the coverage provision of the New York standard endorsement applicable to executive officers of corporations.
- (c) What is the purpose of the loss and expense constant?
- (d) The estimated advance premium for *A* was \$380, based on *A*'s pay roll in the previous year. The audit after the close of the policy year produced an additional premium of \$210. Discuss the right of the company to charge a loss and expense constant.

- (e) *A*'s compensation policy had expired. An employee of the state rating board desired to audit *A*'s pay roll on June 15, 1951, which date was 15 months after policy had expired. What are *A*'s rights?
  - (f) *A* obtained a compensation policy from the *B Insurance Company*. The rate charged for *A*'s operation was \$1.80 per \$100 of wages. The rating board investigated the work done by *A* and changed the classification of his work. The manual rate for the correct classification was \$2.50 per \$100 of wages. Discuss the rights of *A*.
  - (g) State *A*'s rights in the case just presented if the correct classification was issued by the compensation rating board after the policy period had been terminated for 18 months.
  - (h) An employee developed a disease while working for *F*. The workmen's compensation law did not provide indemnity for illness due to the disease. What is the company's obligation?
12. (a) *A*, president of the *B Company*, was paid \$12,500 per annum. What pay roll must be reported for *A*?
- (b) Based upon *C*'s pay roll, the premium computed at published manual rates for the year was \$6,250. How would this premium be affected by the premium discount plan?
- (c) Explain how the following pay rolls will affect the premium charge.
- (1) The pay-roll records of *B*'s books showed that wages for the year paid to *C* were \$3,000 at the regular rate of wages, and \$400 for overtime. The records also showed that *D* received \$6,000 at the regular rate of wages, and \$1,000 for overtime.
  - (2) The pay-roll records in *C*'s books showed that wages paid for the year to *E* were: \$1,800, during which time there was no overtime, and \$1,600, during which time there was overtime.
- (d) The *A Company* obtained a workmen's compensation policy eliminating statutory medical aid. What is the company's liability if:
- (1) *B*, an employee, received an award of \$5,500 for disability benefits, and \$2,200 for medical services.
  - (2) *C* received an award of \$50 for first aid. Subsequently, the *A Company* became bankrupt.
  - (3) Explain the company's liability in the above cases if the policy was written with excess medical endorsement.
- (e) *A*'s son occasionally worked for *A*. Can the policy exclude liability for the son?
- (f) Discuss the purpose and effects of the voluntary compensation endorsement.
- (g) *A* was employed by *B*. While delivering a package of goods on a boat in the harbor, *A* fell and was injured. Discuss the rights of *A* under a compensation policy subject to the United States longshoremen's and harbor workers' endorsement.
- (h) *B*, a retailer, commenced to manufacture merchandise at his premises subsequent to the issuance of his compensation policy. *C*, a factory employee, was injured. What is the company's liability?
- (i) *C* operated a factory. One of the employees was injured and the

medical costs amounted to \$2,000. However, by statute, the maximum amount that could be collected was \$1,000. What is the company's liability?

- (j) *E*, an employee of *B*, played on the company's baseball team. While playing, *E* was injured. What is the company's liability?
- (k) *A* was a manufacturer in New York State. He obtained a compensation insurance policy on January 10. On February 15, *A* opened a branch plant in New Jersey. *C*, an employee, was injured on February 20 in the New Jersey plant. What is the liability of the company?
- (l) *B*, an employer, was unable to obtain a workmen's compensation policy from the various stock and mutual insurance companies writing this line of insurance in *B*'s state. Describe the method that might be used to obtain insurance for *B*.
13. Describe the organizations engaged in accident prevention in the field of workmen's compensation.
14. (a) Explain the purpose of the experience rating plan.  
 (b) Discuss the rights of the following employers to rate modification by the application of the experience rating plan.
- (1) *A* had been in business for 12 months on the date of renewal of his policy.
- (2) *B* had been in business for five years. *B*'s policy was to be renewed on January 1, 1951. His pay roll for the preceding four years showed that the following should have been collected at manual rates on the date of the renewal of his policy:
- | Policy Year | Premium         |
|-------------|-----------------|
| 1947        | \$ 700          |
| 1948        | 800             |
| 1949        | 1,200           |
| 1950        | 700             |
| 1951        | 900 (estimated) |
- (3) *A* has two manufacturing plants. The loss experience of the larger plant was good, and that of the smaller plant was adverse. *A* desires that a separate experience rate should be established on the loss experience of each plant.
- (4) *A* and *B* each had a separate business enterprise. In addition, they were partners in another business enterprise. *A* and *B* requested the combination of the experience of the various businesses for experience rating.
- (5) *B* and *C* owned 70% of the stock of the *D Corporation*, and 80% of the stock of the *E Corporation*. *B* and *C* requested that the experience of both corporations should be combined for experience rating.
- (6) *A* operated a lumberyard and also a woodworking plant. *A* sold the woodworking plant to *C*. *A* requested the elimination of the experience of the woodworking plant in determining *A*'s rate through application of experience rating plan.

- (7) *A*, who was in business for ten years, sold his business to *B*. *B* requested that his compensation rate should be subject to experience rating based upon the experience of the business while conducted by *A*.
  - (8) What are *B*'s rights in the above problem if *B* had been *A*'s manager?
  - (9) State *B*'s rights in problem (7) if *B* became a partner and purchased a 75% interest in *A*'s business.
  - (10) The *E Corporation* was formed by *A*, *B*, *C*, and *D* to operate *A*'s business. Each stockholder had a 25% equity in the new corporation. *E* demanded a compensation rate based on the loss experience while *A* was the exclusive owner of the business. What are *E*'s rights?
15. (a) Discuss the purpose of the retrospective rating plan.  
(b) Explain the operation of the retrospective rating plan.
  16. Describe the purpose of disability insurance and its relationship to workmen's compensation insurance.
  17. (a) *A*, a manufacturer, employs 40 workers during the year. Are his employees entitled to disability insurance?  
(b) *C* owns a store and employs three clerks throughout the year. For the Christmas season, *C* hires an additional employee for the first three weeks of December to work six days a week. Is *C* a covered employer?  
(c) What if, in the above problem, *C* hires an extra person to work only in the afternoons during the entire month of March for the Easter season, and during the entire month of December for Christmas?
  18. (1) What are the rights of the following persons to disability benefits insurance?
    - (a) The porter in *A*'s machine shop.
    - (b) The diemaker in *A*'s machine shop.
    - (c) The foreman in *A*'s shop.
    - (d) The bookkeeper for *A*.
    - (e) The office manager for *A*.
    - (f) *B*, the president of the *C Corporation*, which employs 100 workers.
    - (g) *D*, the vice-president of *C Incorporated*, who receives no wages or remuneration from *C Incorporated*, inasmuch as his position is nominal for the purposes of the laws of incorporation in the state.
    - (h) *E*, a director of *C Incorporated*, holds no other position with *C Incorporated*.
    - (i) *F*, an individual, employs 10 people. One of his employees is his wife, to whom he pays wages.
    - (j) *F*'s two sons also work for him. One son is 24 years old and the other son is 17.
    - (k) *G* is a minister of a church.

- (l) *H* is the caretaker of *G*'s church. He has four assistants.
  - (m) *I* works for the Red Cross.
  - (n) *J* is a clerk for the City's Health Department.
  - (o) *K* works for the Local Port Authority as a laborer.
  - (p) *L* is a teacher in a private school.
  - (q) *M* is a farm worker.
  - (r) *N* works for the Interstate Railroad.
  - (s) *O* is a tugboatman.
  - (t) *P* is a golf caddie.
  - (u) *Q* is a student in college who works every afternoon as a clerk for a large manufacturer.
  - (v) *R* is a student who works full time during the three months' vacation each year.
  - (w) *U* is a housewife who works during the Christmas season in a department store to earn some extra money. She does not work at any other time of the year. She works for 20 days.
  - (x) *V* is also a housewife and, like *U*, works in a department store for Christmas, but she starts earlier in the season and works for a total of 50 days.
  - (y) *W*'s work is like *U*'s and *V*'s, but she works for 20 days in the Easter season and 30 days at Christmas time.
  - (z) *Y* is a painter who works under contract for various concerns during the year. He supplies his own materials and performs his work free from the control of those who employ him, except for the contract specifications.
  - (aa) *Z* is a maid in the home of *A*. *A* also employs a cook, a butler, and a gardener.
  - (bb) *B* owns a store and employs two clerks and a bookkeeper. *B* also has a full-time maid in his home.
- (2) *C* employs three people. May he voluntarily provide his employees with disability insurance?
19. What are the rights of the following persons to disability insurance benefits?
- (a) *A* worked for *B* for three weeks, when he became disabled in an accident at home. This was *A*'s first job.
  - (b) After having worked for *B* for two years, *A* left his job to find a better one. Two weeks after he left *B*'s employ, he became disabled. *A* was unemployed at the time of the disablement.
20. *K*, an employee of *B*, a covered employer, refused to allow *B* to deduct his contribution for disability insurance because he claimed that his religious beliefs prevented him from accepting any of the benefits of that insurance. What are *K*'s rights?
21. *G* claimed disability benefits because he could not perform his own work as the result of a nonoccupational accident. His employer, however, offered to give him some other work temporarily, which he was capable of doing, without decreasing his salary. What are *G*'s rights?

22. *H* was entitled to disability benefits because of an accident. At the time of the accident, he earned \$42.50 a week. He had received a raise from \$37.50 four weeks before the accident. *H* claimed he was entitled to benefits of \$21.25 for two weeks during which time he could not go to work. What are *H*'s rights to the benefits that he claims?
23. *J* was disabled for 20 weeks. He earned \$60 a week. He claimed benefits of \$30 a week for 20 weeks. What are *J*'s rights?
24. (a) Six months after *K* collected disability benefits for nine weeks, he became disabled again from a cause not related to the first disability. He was disabled for ten more weeks. For how many weeks may he collect for the second disability?  
(b) Suppose the second disability lasted three weeks?
25. *L* was disabled for five weeks. Two months later he was disabled again because of the first disability. For how many weeks will he collect benefits in each instance if he was disabled for six weeks the second time?
26. (a) *M* was injured while off the job. *M* did not report to work. Seventeen days later, *M* gave written notice to his employer that he was disabled and for that reason he had not reported to work. *M* also submitted a doctor's certificate that he was disabled. What are *M*'s rights to disability benefits?  
(b) *N* became disabled and notified his employer in writing the next morning. Three weeks later he furnished medical proof of his disability. What are *N*'s rights to benefits?
27. *O* was disabled. His employer's insurance company demanded the right to have *O* examined physically each week while *O* claimed to be disabled. What are the rights of *O* and the insurance company?
28. *P* was disabled for 11 weeks. He filed notice and proof of disability on the third day of his disability. He was entitled to benefits of \$20 per week. When *P* filed the proof of his disability, the indications were that he would be disabled for six weeks. *P*, therefore, demanded that \$120 be paid to him immediately. What are *P*'s rights?
29. The following persons claimed disability benefits. What are their rights?  
(a) *Q* was disabled as the result of an accident off the job. He was not under a doctor's care.  
(b) *S* became disabled because she took an overdose of sleeping pills.  
(c) *T* became disabled as the result of a bullet wound while he was committing a robbery.  
(d) *V* was receiving disability benefits when he started to do work at home for which he was paid by the piece.  
(e) *W* was injured while working at his job which was covered by workmen's compensation insurance.  
(f) *X* was disabled and received benefits from an employer's welfare fund. These benefits were as favorable as those required by the disability benefits law.  
(g) *Z* was receiving unemployment insurance benefits while disabled.

30. Explain the rights of the following persons to disability benefits:
  - (a) *A* receives Federal old-age and survivor's insurance benefits.
  - (b) *B* receives a pension from his employer.
  - (c) *C* receives a pension from a former employer.
  - (d) *D* receives a veteran's disability benefit.
31. Describe the various ways in which *E*, an employer, may provide disability benefits for his employees.
32. How must an employer notify his employees that he has complied with the disability benefits law?
33. Are the monies or benefits received by the following employees included in the pay-roll computation for the purpose of disability law?
  - (a) *A*, a laborer, receives a weekly wage.
  - (b) *B*, the president of *Z Incorporated* receives a yearly salary.
  - (c) *C*, a salesman, receives a salary and commissions.
  - (d) *D*, a salesman, receives only commissions.
  - (e) *E*, the plant foreman, receives a bonus at the end of every year.
34. *F* is a waiter in *Hotel B*. He receives a weekly wage and receives his room and board from his employer. He also receives tips from the guests in the hotel. *F* contends that the tips received by *F* do not constitute wages, as they were not paid by the hotel. What are *B*'s rights?
35. (a) *G* left his job for a better one, and his old employer gave him two weeks' salary when he left. *G*'s employer gave *G* this severance pay voluntarily. Must this amount be regarded as wages?
  - (b) What if, in the above problem, *G* was discharged and *G*'s employer was required to pay *G* two week's severance pay according to statute?
36. *H* provides a retirement, life insurance, and hospitalization plan for his employees. *H* paid the entire cost of the plan. *H* contends that these added benefits should not be included in his statement of wages paid. Is *H* correct?
37. *A* worked for *B*. When *B* put his disability insurance plan into effect, he notified his employees that a deduction would be made from their pay to help pay the cost of the plan. *A* earned \$50 a week. *B* told *A* that 25 cents would be deducted from his pay each week. *A* objected because the total cost to *B* for *A*'s insurance was only 40 cents. *A* claimed that *B* and *A* should share the cost equally. What are *A*'s rights?
38. *C*, an employer, did not plan to make weekly deductions from the pay of his workers, even though he paid them weekly. Instead, he planned to deduct enough to cover four weeks' deductions at the end of each four weeks. May *C* use this procedure?
39. *D*, an employer, did not desire to set up the accounting necessary to make the weekly deductions from his employee's pay. He decided to bear the entire cost of the insurance. What are *D*'s rights?
40. Compare the provisions of the Disability Benefits Law, if any, in your state with the provisions of the law described in this book.

## CHAPTER 23

### TYPES OF INSURANCE CARRIERS

The business of insurance is conducted by six types of organizations : stock companies, mutual companies, reciprocals, Lloyd's, state, and self-insurance.

**Stock Companies.**—Like any other corporation, a stock insurance company is operated for the purpose of making a profit for its stockholders who have contributed to the capital and surplus. The outstanding features of this type of organization are as follows :

1. The insured is charged a definite premium, and in return the company agrees to pay all losses for which it is liable under the policy that has been issued.
2. If the premium income should be insufficient to pay all losses, the stock company cannot demand any further contribution from the insured. The company commences business with capital and surplus, and aims to increase its equity so as to eliminate any doubt concerning its ability to meet all future obligations arising under the policy.
3. The general aim of many companies is to transact business throughout the entire United States, and thus spread their risks as widely as possible.
4. In view of the fact that the stock company is organized primarily for the purpose of making a profit, the company is constantly seeking new fields of insurance in order to increase the premium income. Largely as a result of this incentive, stock companies in the United States have developed many of the branches of insurance conducted at the present time.
5. To avoid excessive premiums, extensive inspection service is maintained by stock companies which write property insurance. The primary purpose of this service is to prevent losses and, incidentally, to reduce rates.
6. Since the stockholders have large sums of money invested in the corporation, they require skilled management to protect not only their own interests but the policyholder's as well.

**Mutual Organizations.**—The mutual organization is a corporation organized by a group of people who are also policyholders. There are many types of mutual organizations, the principal being local fire

insurance mutuals, factory fire insurance mutuals, casualty insurance mutuals, and life insurance mutuals.

**LOCAL FIRE INSURANCE MUTUALS.**—The local fire insurance mutual is organized in some county or town to protect a small group of owners against loss due to fire. In this type of mutual organization, the policyholders pay a portion of the premium in cash and are subject to further assessments in case the premium received is insufficient to pay the losses and expenses. A modification of this plan is to require the members to pay a small cash premium to meet expenses and ordinary losses, and to give a premium note which is used in case the losses and expenses are in excess of the premiums that have been paid.

The outstanding advantage of this type of mutual is the fact that it operates in a restricted territory under a management which knows the hazards that are assumed. The moral hazard is, therefore, inconsequential. On the other hand, in view of the small size of the organization, expert employees cannot be hired. Therefore the primary object is to pay losses without serious scientific effort to prevent losses. Furthermore, since the organization operates in a restricted territory, it cannot obtain the benefits derived from wide distribution of risks.

**FACTORY FIRE INSURANCE MUTUALS.**—The factory fire insurance mutual is designed essentially to offer fire insurance protection to factories. In this type of mutual, members are required to pay premiums in excess of expenses and expected losses. At the end of the year, excess premiums are refunded as dividends, which have been large.

The success of these organizations is attributed to the following factors :

1. Insistence that the primary purpose of the organization is to prevent losses.
2. Emphasis on inspection of risks and on high standards of construction.
3. Tendency to accept risks that do not present any conflagration hazard.
4. Careful underwriting of risks.

**CASUALTY INSURANCE MUTUALS.**—With the development of casualty insurance, mutuals have been organized to conduct certain branches of this business in the various states. These organizations, like stock companies, are subject to regulation. Their dividends and reserves are closely regulated by insurance departments of various states in which they operate.

**LIFE INSURANCE MUTUALS.**—A creditable record has been achieved by mutual organizations in life insurance. This success is notable and

may be attributed largely to the use of scientific tables for rate determination.

In its operation, the life insurance mutual follows the pattern of the stock life insurance company. Both generally employ agents to bring in new business. Incidentally, some stock companies limit dividend payments to stockholders and in some cases pay dividends to policyholders.

The outstanding features of mutual organization may be summarized as follows :

1. Any portion of the premium income which is not used to pay losses may be returned to the policyholders.
2. If the mutual organization is limited in members, the control of the organization is actually in the hands of the policyholders. As the organization grows larger, however, this control by the policyholders becomes theoretical. Because policyholders do not take an active part, control is in the hands of the manager, who continues in office as long as dividends, in satisfactory proportions, are returned to the policyholders.
3. In some cases, mutual organizations obtain a favorable selection of risks. This advantage, however, may tend to disappear as the mutual organization becomes larger and operates over a broader field.
4. When mutuals do not employ agents and pay commissions, the expenses of these organizations may be lower than those of stock insurance companies. In that event, however, representatives of the mutuals must travel throughout the field for the purpose of securing new business and retaining the old business.
5. If the mutual organization is small, it is unable to spend sufficient sums of money to prevent losses. There is also a great risk on account of possible catastrophe, especially in the field of property insurance.
6. When premium income and accumulated surplus are insufficient to pay losses, policyholders of companies, other than those writing life insurance, are subject to assessments. In certain states, however, mutuals are permitted to issue nonassessable policies for property insurance after accumulating sufficient surplus as required by statute.
7. Since the policyholder has a direct interest in the organization, the moral hazard may be minimized.
8. Policyholders are entitled to dividends only when declared out of surplus while their policies are in force. Once they give up membership, policyholders forfeit their interest in surplus and right to receive dividends.

**Reciprocals.**—This form of organization resembles the mutual property insurance company in operation. A reciprocal is an organization of individuals who agree to act as insurers of one another. It is, in effect, a joint venture conducted without profit. The entire business usually is

placed in the hands of an individual called the attorney-in-fact, whose duty it is to collect the premiums, pay the losses, and conduct the business. The attorney-in-fact may be paid a percentage of premiums for his services. The chief characteristics of reciprocals are as follows :

1. The business is conducted at cost, since any balance which remains is returned to the policyholders.
2. The net cost of running the business is determined annually. Theoretically, any surplus or deficiency is then prorated among the policyholders, each account being debited or credited for its respective share. Any balance which is credited to the policyholder must be returned to him. This practice is in marked contrast to that followed by mutual companies. As has already been noted, policyholders of the latter are entitled to dividends only while they continue their membership.
3. Since the policyholder has a direct interest in the organization, the moral hazard may be minimized.
4. This business may be run at a lower cost than the stock company, since commissions may not be paid.
5. With low cost of insurance as a primary objective, there may be a tendency to skimp on expenditures for loss prevention.
6. If the reciprocal is limited in membership, adequate selection of risks cannot be obtained.
7. Unless there is a sufficient premium income, the organization may become insolvent as a result of catastrophe loss.

**Lloyd's.**—This organization, of which Lloyd's of London is the prototype, is formed by a number of individuals who agree to accept risks individually for an agreed premium. It is therefore similar to a stock organization in that the premium accepted is the entire amount that the insured must pay. A member suffers a deficit if losses and expenses are in excess of the premium income, and he makes a profit if the premium is more than sufficient to pay losses and expenses.

The business is not confined to any particular branch of insurance, such as fire insurance or marine insurance, but the members may accept all types of risks. As with stock insurance companies, the risks are placed with members of Lloyd's by brokers. The broker who is trying to place the risk prepares a proposal of insurance stating the amount of insurance he wants. This proposal is then signed by various underwriters who are members of Lloyd's. Each underwriter initials the agreement for whatever proportion of the risk he wishes to assume. The policy which is issued contains the percentage of the risk assumed by the various members who have signed the proposal. In practice, a group of underwriters will appoint one individual to act as their agent, thus eliminating the necessity of obtaining the signature of each of the underwriters.

Since each member is liable only for an agreed portion of the risk, policyholders cannot collect from a signer of the policy in the event of his insolvency. To meet this hazard, several requirements have been imposed for the protection of policyholders, some of which are the following: (1) Each underwriter is required to put up a minimum deposit or guaranty. (2) The underwriter agrees that all premiums and investments must be placed in trust for the payment of losses and expenses. (3) The accounts of each underwriter must be audited annually in order to ascertain whether or not he can meet his obligations.

In America, Lloyd's organizations have not been developed very much. Any insured who accepts a Lloyd's policy must remember that if the organization is not permitted to do business in his state, or if it has no resident representative, he will have to sue the members in the state in which the Lloyd's is organized. In addition, he will have to sue each one of the individuals. Therefore, if 30 underwriters have signed the policy, he will have to commence 30 suits, unless arrangements have been made for one person to accept service for all members participating in the policy.

**State Organizations.**—The Social Security Act has witnessed the active participation of the Federal and state governments in the business of old age and unemployment insurance. In addition, there is a tendency for the United States Government and state governments to enter into the business of insurance. The United States Government operates the War Risk Insurance Bureau providing life insurance and disability benefits for soldiers and sailors. State funds have been organized to write workmen's compensation insurance and hail insurance on farmer's crops. These funds may be monopolistic or competitive. The outstanding features of state funds are as follows :

1. In some cases they operate at a lower cost than private organizations.
2. In the past, the tendency has been to provide for payment rather than for the prevention of losses.
3. In many cases a portion of the risk is indirectly assumed by the citizens of the state. The organization may be relieved from paying taxes on its premium income, or it is given the use of state buildings and employees of other departments.
4. The state funds are mutuals, collecting premiums, paying losses and expenses, and returning dividends if there is a surplus.
5. In some cases the state funds are not permitted to assess policyholders. In such cases it would seem that if there is any deficiency, this sum must be provided by taxation.

**Self-Insurance.**—Business enterprises of great size and financial strength are frequently concerned with the cost of insurance. Where

plants are scattered and more or less isolated and the danger of catastrophic losses is minimized by the nature of the business and construction of properties, a number of concerns feel that they are strong enough to bear their own losses. Organizations which thus carry their own insurance are known as self-insurers.

The essential characteristics of self-insurance plans may be summarized as follows :

1. The organization creates a reserve fund out of which losses are paid. The successful operation of the fund depends upon the ability either to set aside a sufficiently large reserve fund initially, or gradually to build up these funds to meet future obligations.
2. In view of the primary interest, the moral hazard is practically eliminated.
3. If the organization is sufficiently large, adequate money can be spent for the prevention of losses.
4. If the business is widely distributed, the expenses necessary to conduct the business may be so large that savings may be improbable.
5. In order to safeguard against catastrophe losses, excess loss agreements may be obtained.

### QUESTIONS AND PROBLEMS

1. (a) Name the types of organizations which conduct the business of insurance.
- (b) Outline the essential features of stock companies.
- (c) *A* is solicited by the *B Fire Insurance Mutual Company*. Discuss the reasons for or against acceptance of a policy written by this company.
- (d) Contrast the position of policyholders in life and fire mutual insurance companies.
- (e) Summarize the advantages and the limitations of reciprocals.
- (f) What factors should be taken into consideration before insuring in a Lloyd's organization?
- (g) Describe the operation of state funds.
2. (a) Discuss the essential features of self-insurance.
- (b) *A* is the owner of a chain of 550 stores distributed throughout the United States. He is considering carrying the compensation risk by setting up reserves. However, he is solicited by an insurance company which suggests the adoption of the retrospective rating plan. Discuss the advisability of the adoption of self-insurance or the use of an insurance policy subject to retrospective rating.
- (c) Would you alter your conclusions if *A* were a manufacturer and had two plants situated in the city?

## CHAPTER 24

### UNDERWRITERS' ASSOCIATIONS

**Need for Underwriters' Associations.**—Formerly, one who desired to purchase an insurance policy went to the companies and obtained different rate quotations. The prospective policyholder would thus play one company against another. The companies, in their competition for premium volume, sometimes lost sight of the actual cost of the insurance. Rate wars were engaged in; and the result, for many companies, was liquidation. Gradually, various companies began to realize that co-operative effort would benefit them. Thus rate-making organizations were formed. The essential motive in the formation of these organizations was to protect the business of insurance, in which some companies had become insolvent on account of writing the policies at inadequate rates. The organizations have expanded so that they render, in addition to rate-making, numerous other services absolutely essential to the conduct of the business. With two important exceptions, life insurance and marine insurance, they function in practically all lines.

**Objections to Rate-Making Associations.**—Against joint rate-making objections have been raised. It is contended that equitable rates may be obtained by competition. In considering this theory, it is well to take into account the following facts:

1. If rate competition is permitted, the tendency is to favor the influential policyholder by offering him lower rates. When the rate charged to the influential policyholder is inadequate, the premiums charged to other policyholders will be unduly increased to make up deficiencies.
2. Every time an insurance company sells a policy, a transaction occurs which affects the public. The insurance sale differs from the sale of a commercial product, such as clothing. The buyer of clothing is not concerned with the future solvency of the seller; the transaction is completed when the clothing is sold. The buyer of insurance, on the other hand, is concerned with the future solvency of the seller. If unrestrained competition is permitted, the insurance company may not be able to collect sufficient premiums to pay expenses and losses incurred under the policy. Insurance is purchased to produce security. Unrestrained competition may, instead, produce insecurity.

3. The statement is sometimes made that, as equitable results are obtained by permitting competition among commercial concerns selling a given product, so equitable rates may be effected by permitting competition among insurance companies. There is this difference, however, between the wholesaler and the insurance company: The wholesaler knows, at the time of sale, exactly what his article costs, and he will not, except in rare instances, sell at a loss. The underwriter cannot foretell whether or not loss will be suffered on a certain policy; and, if he desires, under strenuous competition, to obtain the business of a certain individual, he will make a rate based upon a probable favorable experience. This optimism, coupled with inability to forecast losses in the future, cultivates the tendency to quote rates below cost—a temptation less common to the businessman, who knows the cost of his article before selling.

Furthermore, if unrestrained competition in insurance is permitted, the result will be monopoly. The weaker companies will ultimately be liquidated; the few surviving companies will combine; the cost, in the absence of protective legislation, will eventually be greatly increased. Insurance companies which took part in rate wars soon realized that adequate rates must be obtained for self-preservation. This realization has led to cooperation and the formation of rate-making organizations.

**Conclusions of Legislative Investigation.**—Various state legislative committees have investigated the subject of joint rate-making by insurance companies. The conclusion reached by an investigation conducted in one state may be summarized as follows:

1. There is no one company which has sufficient experience to make adequate rates. Therefore, adequate rates may be made only by cooperation among various companies writing the same line of insurance.
2. To avoid favoring policyholders with undue influence, combinations to make and maintain rates should be permitted.
3. State regulation of rates made by combinations of insurance companies will produce beneficial results for the companies and for the public.

**State Legislation.**—Such has been the enormous growth in rate-making organizations, that many lines of insurance written by fire insurance companies and casualty insurance companies are now under the jurisdiction of rate-making organizations. The growth of these organizations, resulting in the first place from the activities of the companies, has been accelerated by the introduction of state rating laws. In some states statutes have been enacted requiring the supervision of rates, policies, and underwriting practices by the state superintendent of insurance. Various state statutes have recognized the formation of organiza-

tions to serve as agents of subscribing insurance companies in rate matters.

**Types of Underwriters' Associations.**—Underwriters' organizations may be either national or local associations.

The main purpose of the national association is to act in an advisory capacity to the local associations. The usual practice is for the national association to prepare the rates, make the underwriting rules, prepare policy forms, and carry on national educational campaigns designed to reduce losses. The main purpose of the local associations is to establish and supervise rates, commissions, and underwriting practices in a restricted territory, in general accord with the national association program.

The national associations are becoming so important that they are assuming many functions performed by the local associations. The membership in a national association usually consists of the various stock insurance companies writing the particular line over which the association has jurisdiction. Mutual companies also have their own associations for certain lines. In some cases, membership includes mutual companies and reciprocals and state funds as well as stock companies.

**Functions.**—Services rendered at the present time by the various associations are extremely varied. The more important of the cooperative functions that may be performed by these organizations may be summarized as follows:

**RATE-MAKING.**—The members send to the central association statistics covering the premium income and loss expense by lines of insurance. Rates are then determined on the total experiences of the various member companies. In addition to the preparation of rates, some organizations have prepared merit rating schedules to be applied to individual risks, with the provision that they must be applied equally and fairly to all risks possessing the requirement for merit rating. Examples are afforded by the schedules used to determine the rate for the individual policyholder in fire insurance, and the experience rating plan used in workmen's compensation insurance.

**ECONOMICAL OPERATION.**—Essentially, companies which write the same form of insurance perform the same type of operations. This is especially true in connection with the preparation of rates, inspection of risks, and adjustment of losses. The work of the central organization in preparing rates makes it unnecessary for each company to hire employees to determine a set of rates. Likewise, if a group of companies has insured the same risk, there is no necessity for each company to send their own individual inspector to examine the risk; information can be

obtained through a central inspection service. The economical value of a central organization can be very well shown, too, in connection with the adjustment of fire losses. Assume that an insured had 15 fire insurance policies, each with a different company. If a loss occurred, the former practice was for each company to send its own adjuster. At the present time the tendency is for a central service to be organized to adjust the losses for all the companies.

**STANDARD POLICIES AND PROCEDURE.**—Many difficulties arose in the past through the use, by different companies, of policies with different wording. Often, appeal to court decision became necessary. Realizing that the companies would be benefited by standard policy forms to be used by all, the various organizations have introduced such forms voluntarily, or in some cases as a result of the enactment of state laws. Furthermore, the associations have standardized the endorsements and clauses to be used by the various member companies.

**ENFORCEMENT OF RULES.**—With the introduction of uniform rules, the associations have insisted on adherence to these rules. If any member violates these rules and engages in unethical practices, the member may be expelled from the association. The aim of the association is entirely to stamp out fraudulent practices and misconduct within the business itself.

**PUBLIC RELATIONS.**—Legislatures may attempt to pass ill-advised legislation laying undue burdens on the business of insurance. Special committees are set up by the various associations to observe the trend of legislation. Furthermore, the committees have initiated legislation which may ultimately mean lower rates for the insured.

**EDUCATIONAL ACTIVITIES.**—As the associations have developed, the members have deemed it beneficial to have the associations function as an educational force for the benefit of the public as well as of business. Various associations have prepared educational courses in safety work for the prevention of losses, have introduced safety devices, and have made financial contributions to safety museums.

**Leading Underwriters' Organizations.**—Among the important national underwriters' organizations, the following may be mentioned: National Board of Fire Underwriters, National Bureau of Casualty Underwriters, National Council on Compensation Insurance, and National Automobile Underwriters' Association.

**National Board of Fire Underwriters.**—Membership is available to every stock insurance company writing fire insurance in the United States. Members are admitted by election, or by the action of an execu-

tive committee. The board has no rate-making function, nor has it any jurisdiction over rates and premiums. It has nothing to do with commissions or compensation of agents, but concerns itself with fundamental activities.

The association operates through various committees. Some important committees are the following: committee on adjustments, committee on construction of buildings, committee on fire prevention, committee on incendiarism and arson, and public relations committee.

**COMMITTEE ON ADJUSTMENTS.**—This committee renders decisions on loss adjustments between the companies through its arbitration service. It has available equipment for establishing a central adjusting office following a conflagration. In addition, the fire insurance companies have a central adjustment bureau which is under the jurisdiction of this committee.

**CONSTRUCTION OF BUILDINGS.**—This committee acts as a clearing house for information upon fire-resistive building construction and similar technical subjects. The committee has prepared a code which is a guide in the making of new building laws. The aim of the committee is to assist cities and towns in the preparation of new building codes.

**COMMITTEE ON FIRE PREVENTION AND ENGINEERING STANDARDS.**—Various fire insurance companies have realized the danger of fire through congestion, especially in cities. The function of the committee on fire prevention is to reduce this danger. The committee, therefore, conducts engineering surveys of American cities. These surveys include studies of the water supply, fire engines, and fire-alarm apparatus, and conditions in hazardous industries. As a result of these studies each city is enabled to correct the deficiencies noted. Based on the committee's experience, a standard schedule has been prepared for grading cities and towns with reference to their facilities for fire protection. The committee has also issued regulations governing hazardous processes, the storage of hazardous materials, and construction. These regulations have been included in a suggested fire ordinance, recommended for adoption by cities and towns and to be administered by a fire prevention bureau.

**INCENDIARISM AND ARSON.**—The purpose of this committee is to repress incendiarism and arson by causing the apprehension, conviction, and punishment of criminals who are caught in the act. The committee has a staff of investigators who cooperate with officials in their activities against incendiarism. The committee has prepared a model arson law which has been adopted in many states.

**PUBLIC RELATIONS.**—This committee carries on educational activities relating to fire prevention. It has published various pamphlets, several of which are used in schools in the United States. The committee furnishes speakers for group meetings throughout the country to carry on fire prevention work.

**UNDERWRITERS' LABORATORIES.**—To aid further in fire prevention, the underwriters' laboratories have been organized for the express purpose of testing articles, devices, supplies, gases, chemicals, and processes directly or indirectly associated with fire hazards, fire prevention, or fire-fighting. The laboratories have various types of testing apparatus which are used for testing products sent to them. If the products meet the underwriters' laboratory tests, they are labeled or otherwise distinguished.

**National Bureau of Casualty Underwriters.**—With the growth of casualty insurance companies, a number of bureaus have been developed to handle the specific lines of insurance written by these enterprises. Outstanding among these bureaus is the National Bureau of Casualty Underwriters. A major objective of this bureau is to promote cooperation among casualty and surety companies and with fire and marine companies which transact other classes of insurance in which members of the bureau may have an interest. A second objective is to provide a form for the discussion of rating and other matters. In furtherance of these objectives, the bureau conducts the following activities:

1. The establishing and administering of plans to secure the compilation by members, and by others when necessary or advisable, of complete, accurate, and up-to-date statistical data for use by the bureau in the establishment of underwriting rules, classification of risks, manual rates, and minimum premiums.
2. Collecting and analyzing experience.
3. Establishing underwriting rules, classification of risks, manual rates, and minimum premiums.
4. Establishing and administering rating systems and other plans to measure correctly the hazards of individual risks which are not measured correctly by classification experience alone.

The bureau has five divisions: general liability, automobile, burglary, boiler and machinery, and plate glass insurance. Jurisdiction over workmen's compensation insurance is now with the National Council on Compensation Insurance, but the National Bureau has administrative function for this line in certain sections of the country. The function of the remaining divisions is to determine rates for the specific lines of

insurance. This duty involves the classification of rates, establishment of schedules and experience rating systems, and the determination of underwriting practices. In order to facilitate the conduct of the business, several branch offices are maintained throughout the United States.

**National Council on Compensation Insurance.**—This association is a voluntary organization of insurance carriers which writes workmen's compensation insurance. Unlike the underwriters' associations previously discussed, its membership is not limited to stock insurance companies but is open to any organization writing this form of insurance. Its membership, therefore, includes stock companies, mutuals, reciprocals, and state funds.

The chief objectives of the National Council are the following :

1. Making of rates for workmen's compensation insurance.
2. Collecting and tabulating statistics pertinent to rate-making.
3. Developing rating plans and systems that will not only measure the hazard of each risk but that will also produce the greatest possible accident prevention effect.
4. Administering such rates and rating systems in the interests of the insured, the carrier, and the public generally.

The National Council carries on its work through the rates committee, the actuarial committee, the engineering committee, and the regional committee.

The rates committee approves rating systems and procedure and has direct charge of general rate revision. The actuarial committee advises the rates committee on all actuarial and statistical problems relating to the combination of experience, the establishment of basic pure premiums, the formulation of fundamental principles for the conversion of pure premiums into rates, and the establishment of rating plans. The engineering committee advises the rates committee on engineering matters and on all matters connected with the scheduled rating plan. Since the council is a national body and furnishes rates for the various states, regional committees are organized with authority over matters relating to any general revision of rates or rating plans for states within their respective jurisdiction.

The council maintains a rating department to administer rates in those states in which rate administration is not already in charge of independent bureaus approved by the state supervising authorities. Where the administration of rates is not in charge of independent bureaus, the council can issue a charter to local administrative bureaus, subject to approval by the state supervising officers. These bureaus serve under the general supervision of the rating department.

In states where independent bureaus have jurisdiction over workmen's compensation rates, these bureaus may affiliate with and obtain the service of the National Council.

The council is under the direct supervision of the National Association of Insurance Commissioners, a resident representative of which serves in the office of the council. It is his duty to keep the national association informed and acquainted with the terms of all rate-making procedure.

**National Automobile Underwriters' Association.**—This national organization operates essentially for the purpose of formulating underwriting rules for automobile fire insurance and allied lines. The primary purposes of this association may be summarized as follows :

1. To promote, in proper manner, the public safety and welfare in the ownership, maintenance, use, or operation of motor vehicles.
2. To prevent unfair discrimination in the cost of automobile insurance and the coverage afforded to the public.
3. To provide a forum for discussion and the exchange of information pertaining to all matters related to the classes of insurance for which the association prescribes and promulgates rates, forms, or rules.
4. To prescribe and promulgate rates, rules, and standard forms to members and subscribers for such classes of automobile insurance as may be determined by the bureau.
5. To collect and analyze experience statistics.
6. To perform such other duties and functions as may be incidental to the foregoing, or necessary or advisable to enable the association and its members and subscribers to comply with any applicable law.

Prominent among the committees of this association are the Staff Committee and the Regional Automobile Committees.

**STAFF COMMITTEE.**—The functions of the staff committee are as follows :

1. To procure and compile such statistics as the board may require, and to prepare and forward to members all blanks necessary for that purpose.
2. To prepare and recommend to the board: methods of rating and schedules of rates; rules; amendments to existing forms of policies, clauses, and endorsements; and new forms of coverage.

**REGIONAL AUTOMOBILE COMMITTEES.**—Inasmuch as the National Automobile Underwriters' Association is concerned with automobile fire insurance and other lines throughout the United States, regional committees have been established. Each Regional Automobile Committee can recommend to the board rules and forms, and it may make general recommendations regarding underwriting practices in its terri-

tory, but no such recommendations can be effective unless and until approved by the board. In addition, each Regional Automobile Committee may, provided it in no way affects the interests of other regional territories, originate additional forms or changes in forms to meet solely local conditions, such special forms to be acted upon by the board or by an instrumentality of its creation without reference to other Regional Automobile Committees. Each Regional Automobile Committee reviews the Staff Committee's annual recommendations as to rate levels and rule changes, and then transmits its opinions to the Advisory Committee of the Board.

**National Automobile Theft Bureau.**—This national organization cooperates with the National Automobile Underwriters' Association by promoting nation-wide policies and practices with respect to automobile theft prevention and recoveries and to law enforcement. The national theft bureau functions through local bureaus in carrying out its general policies.

This bureau aims to cooperate with state motor vehicle, license, and certificate of title departments in the identification, tracing, and recovery of stolen cars.

The bureau also aims to cooperate with the Automobile Manufacturers' Association, the United States Chamber of Commerce, automobile dealers' associations, the United States Department of Justice, and with all other similar organizations and agencies interested in the prevention of automobile thefts, the recovery of stolen cars, effective legislation, and law enforcement.

The National Bureau operates throughout the United States and the Dominion of Canada. It maintains exclusive jurisdiction with regard to local bureaus concerning the following: (1) all matters of nation-wide import in which the National Bureau may have an interest; (2) all matters affecting the general policy throughout the United States in connection with automobile theft prevention, law enforcement, and automobile recoveries; (3) all matters involving cooperation with Federal authorities.

The jurisdiction of the local bureaus, subject to the Federal laws and the statutes of the several states in their respective territories, extends and includes the application of the National Bureau's general policies with respect to automobile theft prevention, law enforcement, and automobile recoveries. Wherever possible the jurisdiction of the National Bureau is exclusive with respect to (a) all matters affecting the investigation, identification, and release of motor vehicles stolen in the United States and smuggled into the Dominion of Canada; (b) cooperation with the Canadian Department of Customs, provincial police, and all

other governmental or duly constituted organizations and agencies interested in preventing smuggling of stolen motor vehicles into Canada, the recovery of automobiles and effective legislation and law enforcement in connection therewith.

**Local Bureaus—New York Compensation Insurance Rating Board.**—The New York Compensation Insurance Rating Board furnishes an example of a local bureau. This board was formed after the passage of the New York Workmen's Compensation Law in 1914. The New York Insurance Law required every company writing workmen's compensation, except the New York State Insurance Fund, to file rates and schedules with the superintendent of insurance. In order to avoid the abuses inherent in competition, a voluntary organization of companies writing workmen's compensation insurance was formed. This organization is called the Compensation Insurance Rating Board. Although the State Insurance Fund was not required by law to become a member, it has done so voluntarily, reserving to itself, however, the power of using its own rates.

The aims of this board are twofold: (1) to establish classifications and underwriting rules, and to make adequate and reasonable premium rates for workmen's compensation and employers' liability insurance, except such employers' liability insurance on residence and farm employees as may be provided in conjunction with other liability insurance equitably adjusted to the hazard of the individual risk by means of a system of merit rating; (2) to reduce the number and severity of accidents through encouragement given employers to improve conditions by the offer of reduced rates.

Any insurance carrier, including the State Insurance Fund, authorized to do the business of workmen's compensation insurance in the State of New York is entitled to membership in the board. The board is under the general charge of a governing committee composed of five members, two representing stock carriers, two representing mutual carriers, and one the State Insurance Fund. The governing committee appoints the following committees:

**CLASSIFICATION AND RATING COMMITTEE.**—The functions of this committee are (1) to establish and maintain a manual of rules, classifications, and rates, and to make all necessary revisions and amendments in such manual from time to time; (2) to hear and determine all complaints from insurance carriers and employers relating to classifications and premium rates.

**SAFETY ENGINEERING COMMITTEE.**—The functions of this committee are (1) to aid the staff of the board in developing and maintaining a

suitable program for the inspection of risks for classification and rating purposes; (2) to maintain and promote cooperative relations with the State Labor Department for the purpose of advancing uniformity in industrial safety codes.

**ACTUARIAL COMMITTEE.**—It is the duty of this committee to establish, maintain, revise, and amend the rate-making procedure for the determination of manual rates and levels and an experience rating plan for the rating of individual risks. It also establishes and maintains statistical plans for records for exhibiting experience and the effect of rating plans, and generally oversees the work of the board in connection therewith.

**MEDICAL AND CLAIMS COMMITTEE.**—The duties of this committee are (1) to study the law and rules relating to administration of claims in the Labor Department; (2) to study the law and rules relating to the medical treatment of claimants for compensation; (3) to recommend such desirable reforms with respect to claim administration and medical treatment as, in the judgment of its members, may promote the best interests of the public.

**COMMITTEE ON PAY-ROLL AUDIT.**—The functions of this committee are (1) to study methods and practices followed by the carriers in the audit of pay roll; (2) to formulate rules for making test audits by the board; (3) to recommend such desirable reforms as, in the judgment of its members, may promote the best interests of the public. The rules or recommendations adopted by this committee require the approval of the classification and rating committee before they become effective.

The bureau cooperates with the National Council on Compensation Insurance in all matters relating to manual rules, classification, and rating plans.

### QUESTIONS AND PROBLEMS

1. (a) Why are rate-making associations needed?
- (b) Summarize the objections to rate-making associations and the arguments answering these objections.
- (c) The *A Fire Insurance Company* has written policies covering 1,000 buildings. The company desires to quote a rate of 2% based upon the experience with these buildings for the past five years. Analyze this basis for rate-making.
- (d) *A*, a manufacturer of steel utensils, pays a premium of \$1,000. *B*, a manufacturer of steel utensils, pays the same premium. The insurance company desires to give *B* a lower rate than *A*. Discuss

the rights of the insurance company to differentiate in rates for the two risks.

- (e) State the conclusions reached by state investigators concerning joint rate-making by insurance companies.
  - (f) A national underwriters' association desires to make rates for a particular state in which a local association is established. The local association objects to the national association's preparing rates for the state. Discuss the validity of this objection.
  - (g) What are the essential functions of underwriters' associations?
2. (a) Describe the functions of the National Board of Fire Underwriters.
- (b) State the objectives of the National Bureau of Casualty Underwriters.
  - (c) How does the National Council on Compensation Insurance operate?
  - (d) Summarize the purposes of the National Automobile Underwriters' Association.
  - (e) State the duties of the various committees of the New York Compensation Insurance Rating Board.

## CHAPTER 25

### ORGANIZATION AND MANAGEMENT OF INSURANCE COMPANIES

**Preliminaries in Formation.**—Insurance organizations are usually corporations. As such, they are formed by virtue of state legislation, for a corporation is merely an artificial citizen created by the state, and has only such powers as are specifically granted to it by legislation. Generally, insurance companies are organized under state insurance statutes and are subject, in addition, to the provisions of the general corporation law.

The following preliminaries must be considered in the formation of an organization: type of company, scope of proposed business, the proposed name, and preparation of the certificate of incorporation.

**TYPE OF COMPANY.**—The purpose of organizing an enterprise determines the type of organization that will be formed. If the purpose is to make profit as a result of investment of capital, the form of organization that will be formed is a stock company; if the purpose is to afford mutual protection, the organization will be a mutual company or reciprocal.

**SCOPE OF PROPOSED BUSINESS.**—To determine the scope of the business is a necessary step, in view of the fact that generally, under the laws of various states, no corporation can be given power to transact all lines of insurance. Furthermore, the amount of capital required for stock insurance companies is dependent upon the different lines of insurance that the organizers propose to undertake.

**THE PROPOSED NAME.**—After the scope and character of the business have been determined, a name must be decided upon. In the business of insurance, as in other lines of business, the name of the company is a very important trade-mark. The reader probably knows the names of a number of companies, and he will observe that they connote, to his mind, life insurance, casualty insurance, or fire insurance.

**PREPARATION OF ARTICLES OF INCORPORATION.**—After deciding on the type of company, the scope of its proposed business, and its name, the articles of incorporation must be prepared. Since a corporation has no other powers than those which are set forth in the charter and the

implied and incidental powers necessary to make the company function, the articles should be drawn up with great care and diligence and should be made as broad as possible. If the company should later on decide to perform functions which are not mentioned in the charter, it would have to obtain authority from the superintendent of insurance and, in some cases, legislation would be necessary. The charter does not usually contain any description of the provisions for internal organization of the company, this matter being left to the bylaws.

**Articles of Incorporation.**—In the various states, no company can transact the business of insurance until a certificate of authority has been granted by the superintendent of insurance. This certificate is given only after an examination has been made under the direction of the superintendent. Before a certificate of authority can be obtained by any persons desiring to form an insurance corporation, they must file their certificate of incorporation with the insurance department for approval; later amendments to the certificate must also be filed for approval. These articles must be signed by the persons signifying their intention to form a corporation, and they must contain the following important information:

1. Name of the proposed corporation.
2. Place where its principal office is to be located.
3. Kinds of insurance that are to be undertaken.
4. The manner in which the corporate powers are to be exercised.
5. The names of directors, the manner of their election, and the manner of filling vacancies.
6. The amount of capital (if a stock company).
7. Any other particulars necessary to explain the purpose of the incorporation.

The articles of incorporation are then submitted to the official legal counsel, who passes on the provisions and decides whether they conform with the insurance law. If the charter meets with the approval of the legal counsel, the superintendent of insurance may then issue a certificate of authority to do business. If the name of the proposed company is similar to the name of any other company writing insurance, a certificate of authority may be withheld until the proposed company changes the name. This is done in order to avoid deceiving the public.

**Organization Meeting.**—As soon as possible after the certificate of incorporation has been approved by the state, an organization meeting should be held in the state in which the corporation proposes to operate. At this meeting the directors may be re-elected, and at the same meeting, or a subsequent meeting, the officers are elected.

The bylaws, which have been previously prepared, are then adopted, together with all amendments that are necessary. These bylaws control the internal management of the company. They must not be inconsistent with the powers enumerated in the company's charter; in fact, they merely provide the method by which the powers stated in the charter are to be administered. The superintendent of insurance then examines the bylaws and determines whether all the financial requirements have been met. If the company is a stock organization, the amount of capital required by law, and a surplus as well, must have been subscribed and paid for prior to commencement of business. Similarly, a mutual company, which is not required to have an initial capital and surplus, must have met the requirements, which are frequently a minimum number of applicants for policies for a certain amount of insurance and a guarantee fund. The company may then commence business.

**Board of Directors.**—As a general rule, a majority of the board of directors is necessary to constitute a quorum for the purpose of doing business at a meeting. In the hands of the board of directors are all questions of business management and policy; and their acts cannot be disputed by either the policyholders or the stockholders unless performed in violation of the powers of the company. Generally the board of directors appoints various committees to which the ordinary powers and duties are delegated. Two of the important committees are the executive and finance committees. The executive committee decides on general questions affecting the methods of carrying on the business. The finance committee controls investments and decides on the investment policy of the company. Questions of bank deposits and mortgage loans, as well as the sale and purchase of real estate and securities, are under the control of this committee. All committees are guided in their functions by the officers of the company. In general it may be observed that the main function of the board of directors is to supervise the active management of the company.

**Department Organization.**—The management of insurance companies is very similar to that of trust companies. At the head of the organization there is generally a president or other executive. Theoretically, he is in charge of all departments of the organization; in practice, however, he usually centers his attention on one phase of the business. In many cases he is also chairman of the board of directors. Immediately below the president is the vice-president. As the corporation grows in size, there may be a number of vice-presidents who are in charge of various departments. The vice-president may be appointed to supervise, with the assistance of subordinates, the following departments, depending upon the type of company :

Agency Department  
 Educational Department  
 Underwriting Department  
 Inspection Department  
 Loss Department  
 Legal Department  
 Registrar's Department  
 Treasurer's Department  
 Comptroller's Department

Actuarial Department  
 Statistical Department  
 Real-Estate Loan Department  
 Policy-Loan Department  
 Publicity Department  
 Advertising Department  
 Supply Department  
 Mailing Department

**AGENCY DEPARTMENT.**—This is the most important department. Its duty is to secure new business for the company. The amount of new business depends upon the ability of the agency department to develop agents in the various states in which the company operates. Frequently, branch managers and general agents are appointed to conduct the business in various localities. For the use of the agents, this department prepares literature, such as instructions on how to write the business, house organs, and educational booklets.

**EDUCATIONAL DEPARTMENT.**—In many companies there is an educational department, the function of which is to educate agents and brokers in the various complex questions that arise. Often, especially in life insurance companies, correspondence courses in special subjects are conducted. There is a growing practice for the educational department to train groups of men in the routine and the underwriting practices of the home office, then give them training in the field, and thereafter appoint the people so trained as branch office managers in the various districts throughout the country.

**UNDERWRITING DEPARTMENT.**—The task of this department is the proper selection of risks. Personal investigation, as well as the statements made in the application, may be required for proper exercise of judgment. The department may appoint necessary medical examiners if the matter is one of life insurance or accident and health insurance; or, in matters of property insurance, it may employ special help to investigate the application or to make a physical inspection of the risk.

**INSPECTION DEPARTMENT.**—This department is usually found in casualty companies and fire insurance companies. Its duty is to aid the underwriting department in its selection of risks, based upon physical conditions. Furthermore, if the risk has been accepted, inspectors are sent from this department to aid in reducing its hazard to a minimum. This is done by advising the insured how to reduce his rate by introducing devices, and showing him how to keep his plant in the best physical condition.

**LOSS DEPARTMENT.**—This department adjusts claims. It makes an investigation of each claim, concludes whether the claim is to be rejected or paid, and in the latter case determines the amount. The proper operation of this department means much for success. The payment of just claims without undue emphasis on technicalities will help any company.

**LEGAL DEPARTMENT.**—This department is usually supervised by the chief counsel of the company. He is required to approve the legality of various applications and policy forms used in the underwriting department. The department handles the legal phases of the company's payments in case of loss, makes searches of titles in connection with real estate and mortgage transactions, prepares bonds and deeds, and defends the company in any lawsuits. In addition to the legal duties imposed upon the company by virtue of the business of insurance, the counsel may be called upon to represent the company in connection with state legislation affecting insurance, and to see that the company complies with the various insurance laws.

**REGISTRAR'S DEPARTMENT.**—This department keeps a record of all applications made for insurance, as well as a copy of all policies issued. It may be said to be the central information bureau for the different departments of the organization.

**TREASURER'S DEPARTMENT.**—This department is the custodian of all securities and funds of the company, and in addition keeps a record of all financial transactions. Under the direction of the treasurer is a cashier. The treasurer is usually a member of the finance committee of the organization. He advises the committee on investments, on the status of the company, and on the financial condition of banks in which the company's funds have been deposited.

**COMPTROLLER'S DEPARTMENT.**—The accounting of the company is under the direction of the comptroller. His department keeps a record of all receipts and disbursements. In addition, the department acts as auditor of the various financial statements rendered by the agents.

**ACTUARIAL DEPARTMENT.**—This department is found for the most part in life insurance companies, but there is a tendency at present to introduce it into all lines of insurance. In fact, many casualty companies have already introduced such a department. The purpose of the actuarial department is to prepare a scientific basis for rates. The members of the department draw up experience tables, assist in calculating premium rates and reserves, and determine dividends.

**STATISTICAL DEPARTMENT.**—This department cooperates with the actuarial department, where the latter exists. The purpose of the statis-

tical department is to prepare figures analyzing the results of the company's operations. Where the company carries on multiple lines of insurance, the premium as determined by lines, losses, cost of doing business, and miscellaneous statistical information is prepared by the statistical division. This division, in addition, cooperates with the comptroller's department by furnishing figures for use in the general ledger of the company and for the financial statement.

**REAL ESTATE LOAN DEPARTMENT.**—This department functions especially in insurance companies which make a practice of investing large sums of money in real estate loans. Its principal function is to pass on applications for loans and to report on their advisability to the finance committee.

**POLICY LOAN DEPARTMENT.**—This department is found in life insurance companies where policies have a cash surrender value or loan value.

**OTHER DEPARTMENTS.**—In addition to the various departments which have been enumerated, there may be a number of other departments. Among the more important are the following :

1. Publicity department, the purpose of which is to maintain proper relationship between the insurance company and the public, and to keep the company before the public.
2. Advertising department.
3. Supply department.
4. Mailing department.

**Insurance Agents.**—As stated previously, the business of insurance is developed mainly through agents. Applications for insurance do not usually come to the insurance company from the individuals desiring insurance. In fact, insurance companies usually do not look with favor upon an applicant coming directly to the company except in cases where the company operates without agents. The latter is the situation especially in some mutual fire and casualty companies.

Since the great bulk of insurance is not obtained directly from the applicant, it is essential to have persons, known as "agents," properly equipped to bring in business. As a general rule the agent must obtain a license from the state, through a particular company, in order to be permitted to act as agent for the company. After he is licensed he receives from the company a contract containing the following :

1. Rates of commission paid for each line of insurance.
2. The power of the agent to issue policies.
3. Prohibition of rebating, which is the practice of returning a portion of the commission to the insured.

4. The method of making remittances of premiums.
5. A stipulation providing that if a contract is terminated, the books of the agent belong to the insurance company and must be turned over to it.
6. A provision in some contracts that the agent cannot write the same lines of insurance for another company.

**Types of Agency Systems.**—There are three important types of agency systems: (1) the general agency, (2) the branch office, and (3) the direct reporting agency.

**GENERAL AGENCY.**—The general agency system is the oldest of the three. Under this system the company appoints a general agent and usually gives him exclusive control over specified territory. He, in turn, appoints a number of subagents who are responsible to him alone. He makes contracts with the subagents, pays their commissions, and controls their activities. For the most part the first concern of the general agent is to obtain the maximum business from his district; and he may devote more of his time to this than to supervising the activities of subagents. The general agent receives a commission on his own business and an extra commission on all business produced through subagents. Out of these commissions he pays all necessary office expenses. At times he receives a share of the profits produced by his agency.

**BRANCH OFFICE.**—Under the branch office system, the company operates directly in the various territories. Branch offices are opened under a manager who is paid a stipulated salary. It is the duty of the manager to obtain agents who can produce business. In addition, he must understand the routine duties connected with various problems that arise in the office from day to day. If the branch develops business in excess of the normal amount expected, the branch manager often is paid a bonus in addition to his salary.

**DIRECT REPORTING AGENCY.**—Under the direct reporting agency system agents are appointed by the home office and given a certain territory in which to operate. In most cases each agent is given exclusive control over a certain territory. The essential difference between the general agency system and the direct reporting system is that the general agent operates through subagents who produce business for him.

**Special Agent.**—To increase the number of agents in the field, the insurance companies appoint special agents, not to sell insurance but to travel throughout the country forming agencies in territories where there have been none. Some special agents are trained at the home office. They are also prepared to lend their assistance in increasing the amount of business of the various producing agents.

**The Broker and the Insured.**—In some cases the agent or the branch office accepts business from people who solicit the insured directly, but who have no contractual relationship with the insurance company. Such persons are known as “brokers” and are paid a commission depending upon their premium writings. The broker may be said to be a representative of the insured. He therefore has no power to issue policies or to decide on premium rates. He can offer his business to any company. In some states it is necessary to pass an examination before one is permitted to solicit business as an insurance broker.

**Regulation of Agents, Brokers, and Adjustors.**—Various states have enacted legislation regulating the rights of individuals to act as agents, brokers, or adjustors. They must be licensed by the state. In addition, the law provides regulations after the license has been issued. In the following paragraphs reference will be made to one state law.

The statute requires that anyone who acts as an insurance agent, broker, or public adjustor without authority to do so by virtue of a license issued by the superintendent of insurance is guilty of a misdemeanor. Furthermore, the law prohibits anyone acting as an agent for an insurer which is not licensed or authorized to do business in the state. This statement is subject to a few exceptions. For example, an individual can act for an insurer or company not licensed or authorized to do business in the state for marine insurance, whether or not the subject matter is within or without the state.

**Requirements for a License.**—Before a person can act as an agent for a life or accident and health insurance company, the law provides that the applicant must do the following things :

1. File a written application with the superintendent of insurance.
2. Furnish a certificate by the insurer that the insurer is satisfied that the applicant is trustworthy and will appoint him as an agent.
3. Pass a written examination held at such times and places as the superintendent of insurance may determine.

Requirements are similar for licensing of agents in the fire, casualty, and surety lines, as well as brokers. For brokers the requirements are :

1. In order to determine trustworthiness and competency, each applicant must pass a personal written examination prepared by the insurance department on the principal branches of insurance, excluding life insurance. The purpose of the examination is to grant a license to a person who is deemed by the superintendent of insurance to be trustworthy and competent to act in such a manner as to safeguard the interests of the insured.
2. Before taking the examination the applicant must have completed a course of instruction approved as to methods and contents by

the superintendent of insurance. This course cannot be less than 90 hours of classroom work or its equivalent in correspondence work. Instead of taking a course of instruction, the applicant can meet the requirements if he was regularly employed by an insurance company, an agent, or broker for a period or periods of not less than one year during the three years next preceding the date of his application, in responsible duties relating to underwriting or adjustment of losses in any of the following branches: fire, marine, liability, workmen's compensation, surety, and fidelity.

**Renewal of License.**—After an agent, broker, or adjustor has obtained a license, the superintendent may refuse to renew the license. The reasons for this refusal may be due to the following:

1. Violation of any provision or obligation imposed by the insurance law.
2. Violation in the course of his dealings as an agent or a broker.
3. Making a material misstatement in the application for the license.
4. Being guilty of fraudulent or dishonest practice.
5. Incompetency or untrustworthiness to act as an insurance agent or broker.

Before a license can be revoked or suspended, the superintendent must give the individual notice and hold a hearing. The decision of the superintendent of insurance is subject to a judicial hearing.

**Unauthorized Insurer.**—As stated previously, a broker or agent is not permitted to obtain insurance (subject to a few exceptions) with a carrier not licensed or authorized to do business in the state. However, a broker may be unable to obtain any amount of insurance or to obtain adequate insurance for his client to cover a specified peril, such as fire. Under such circumstances the broker can be specially licensed to obtain insurance from unauthorized insurance companies. If any policy is procured under the authority of the excess license, the broker must prepare an affidavit stating that the insured and the broker were unable to obtain from any authorized insurer the full amount of insurance, and that the amount obtained from the unauthorized insurers was in excess of the amount procurable from authorized insurers.

**Miscellaneous Provisions.**—After an agent or broker is licensed, he may have occasion to publish advertisements, make statements comparing policies issued by different companies, and handle premiums. In order to safeguard the public, the following provisions have been made:

1. No agent or broker can issue any advertisement unless there is set forth in the advertisement the name of the insurer and the name of

- the city and the location of the principal office in the United States.
2. An agent who sells life, accident, or health insurance must not make incorrect comparisons of policies issued by different companies. The comparison is not complete unless the agent furnishes in detail the gross premiums and dividends or other deductions allowed at the date of the comparison, increases in cash values, and benefits provided by the policies for the possible duration of the policies or contracts as determined by the life expectancy of the policyholder.
  3. An agent or broker cannot procure marine insurance for any person except a person who has bona fide interest or who has a reasonable expectancy to acquire such interest.
  4. An agent or broker cannot rebate, that is, share his commissions, with his clients. However, the law permits him to give a client an article of merchandise not exceeding \$1 in value. The advertisement of the agent or broker must be stamped or printed on the article.
  5. Premiums collected from clients cannot be mingled with the broker's or agent's funds or with funds held by the broker or agent in any other capacity. Premiums collected from clients are, therefore, received in a fiduciary capacity.
  6. A broker or agent may not be satisfied with the commission on a policy allowed by the insurance company. The broker or agent has no right to any compensation from his client unless he has made a contract signed by the client to be charged, specifying or clearly defining the amount of the extra compensation.

#### QUESTIONS AND PROBLEMS

1. (a) A group of manufacturers desired to form an insurance company to cover their fire risk. Describe the type of organization to be formed.  
(b) A group of capitalists desired to form an organization to write all types of insurance. What is the possibility of forming such an organization?  
(c) The directors of the *A Automobile Insurance Company* desired to write burglary insurance. An examination of the charter indicated that the company was formed to write automobile insurance. State the method whereby the company may be permitted to write the additional line.  
(d) A charter is filed with the name of the *X Casualty Insurance Company*. Will the charter be granted if there is a company in another state with the same name?
2. (a) What information must appear in the articles of incorporation of stock insurance companies?  
(b) State the purposes of the organization meeting of an insurance company.

- (c) The *A Insurance Company* was organized to write fire insurance. The manager of the company made various investments which forced the insurance department to assume charge of the insurance company for liquidation. The loss to the company from these poor investments amounted to \$250,000. The board of directors had never sanctioned these investments. The stockholders demanded that the board of directors suffer the loss. Discuss the liability of the board of directors.
- (d) Summarize the chief functions of the various departments of insurance companies.
3. (a) List the essential provisions of the agent's contract with the company.
- (b) Describe the work of the special agent.
- (c) Distinguish between the functions of insurance agents and brokers.
- (d) After five years of operation, the directors of the *Z Life Insurance Company* decided to enter an additional state. A resident of that state applied to the company for appointment as its general agent, claiming that he could produce a large volume of business in the state. The board of directors, however, considered the advisability of sending one of its able employees to open a branch office and appoint agents in that state. The board also had under advisement the plan of appointing various individuals with the right to solicit business and report directly to the company. Indicate how each of these plans may be effected.
4. (a) What are the duties of the superintendent of insurance in the following instances:
- (1) *A* claimed that he was an agent for the *X Insurance Company*. However, he had not obtained a license from the state.
- (2) *B*, who had a broker's license, placed a marine insurance policy through the London office of an English insurance company.
- (b) Outline the requirements for the issuance of a license to each of the following:
- (1) An agent for a life insurance company.
- (2) An agent for a casualty company.
- (3) A broker.
- (c) *C*, who was a broker, failed to account for premiums. In this instance, what are the duties of the superintendent of insurance?
- (d) State five reasons why the superintendent of insurance can refuse to renew the license of a broker.
- (e) *E*, who was a broker for *B*, was able to obtain only \$5,000 fire insurance for *B*. However, *B* required \$45,000 additional fire insurance. The coverage could not be obtained from any company transacting business in the state where *E* was a resident. *E* requested insurance from an unauthorized insurance company. What are the rights of *E*?

- (f) Give four state regulations affecting an insurance broker after he has obtained his license.
- (g) *E*, who was *C*'s agent, earned \$250 in commissions as a result of placing policies for *C*. During the year *E* entertained *C* at a cost of approximately \$50. Explain whether *E* was guilty of rebating.
- (h) *H*, who is an agent, purchased some memorandum books at a cost of \$2.50 per copy. *H* had his name and address printed on the front cover of each book, and sent a copy to each client. Explain whether *H* was guilty of rebating.
- (i) Broker *I* found it very difficult to place \$100,000 fire insurance for *J*, his client. As he was not satisfied with the commission received from the company, *I* demanded an additional compensation from *J* of \$100. What are the rights of *I*?

## CHAPTER 26

### REINSURANCE

**Reasons for Reinsurance.**—The solvency of an insurance company may be threatened by heavy losses on its policies. A life insurance company may therefore be unwilling to insure a single life for, say, \$500,000. A fire insurance company may for the same reason not care to assume the entire hazard of insuring a large building.

Under the stress of competition, a company may find it difficult to refuse an application for insurance in excess of the company's limits. If the agent were advised that the company he represents limited the insurance on any fire risk to \$5,000, and if he were offered a \$100,000 risk, he would be compelled to place the other \$95,000 insurance with several companies in the capacity of broker. This procedure would be unsatisfactory to the agent, as his commission would probably be reduced thereby. Furthermore, it might irritate the insured if he did not desire more than one policy.

Because of the convenience afforded by large-amount policies, companies which accept this business are likely to be favored. Accordingly, many companies encourage their agents to write large-amount policies for their clients.

To survive the heavy losses which might follow the insuring of large-amount risks, insurance companies have devised a method of spreading the risk by reinsurance with other companies. To illustrate the use of reinsurance, assume that a company has analyzed the various risks on its books and found that some risks are too large and others too hazardous. It then requests another company, transacting similar business and operating in the same market, to accept a certain portion of its risks. In return for this acceptance, the first company might agree to accept a portion of the risks of the second company. In order to facilitate this practice, companies are organized which primarily accept risks of other companies.

**Principles of Reinsurance.**—A reinsurance transaction is a transaction in which the company accepting the risk cedes a part of that risk to another insurance company. In consideration of the acceptance of the risk, the reinsurer receives a premium from the company which originally accepted the risk, just as the original company received a premium from the insured for the acceptance of the risk.

The original idea was that the reinsurance was primarily a benefit to the company giving away part or all of the risk. In accordance with this idea, the rates charged for reinsurance were high. Upon discovery of its profitability when properly underwritten, however, reinsurance was proved to be a benefit to the original insurer, the policyholder, and the reinsurance company.

In general practice, the insured receives from the writing company a policy for the full amount of the risk. In case of loss he must look to that company for indemnity. He has no information as to the manner in which the company reinsures its liabilities.

If a claim is made by the policyholder, he must notify the company which issued the policy, and that company, in turn, notifies the reinsurance company that a loss has occurred under the reinsurance agreement. The insuring company adjusts the claim and pays to the policyholder the amount due. The reinsuring company then pays its due proportion to the company from which it accepted liability. The insured is concerned only with the company that issued the policy to him, and he collects the amount of loss directly from that company.

**Types of Reinsurance Systems.**—There are two important types of reinsurance systems: facultative reinsurance and treaty reinsurance.

**Facultative Reinsurance.**—In the absence of a treaty, if an insurance company should desire to reinsure a particular risk or part of a risk, the facultative reinsurance system is used. This situation arises when an insurance company finds it necessary to accept a large risk, or decides that certain risks on the books expose it to a great hazard. The insurance company then sends its representative into the insurance market to discover whether or not any insurance company will accept part of the risk.

Under the system of facultative reinsurance, the reinsurer is usually liable for a portion of the risk, under the same terms and the same obligations as the ceding company. The reinsurance premium is determined with each transaction. Since there is no agreement to accept that contract, the reinsurer may demand any premium. The premium charged may be higher than the premium charged by the ceding company to the policyholder. Since facultative reinsurance may not be favorable to the ceding company, it is used only to protect the insurance company against excess losses.

During the past decade large companies have acquired control of small companies in the fire insurance lines. The group of companies is known as a "fleet." Through the use of these smaller companies, the controlling company has found an easy outlet for the reinsurance of its surplus lines, and at the same time has been able to retain indirectly,

because of financial interest, the premiums which would otherwise have been ceded to other companies.

Incidentally, the controlling company is benefited by being able to accept, from the members of the group, reinsurance which heretofore had been disposed of through foreign channels.

This practice still retains a measure of the facultative process because of the fact that each member of the fleet, as a rule, may desire to retain the privilege of accepting each risk. There is a wide latitude, however, for obtaining the protection desired, because of the possibility of a greater spread of the business and the acquisition power of the leading member of the group.

**DANGERS OF FACULTATIVE REINSURANCE.**—The use of facultative insurance exposes a company to the following dangers :

1. The company may wish to accept a large risk from an agent and yet be unable to accept the full risk because of doubt as to its ability to obtain facultative reinsurance.
2. If the company accepts a large risk and facultative reinsurance is not obtained, the company exposes itself unduly.
3. Since reinsurance is obtained for each risk, and the reinsurance company may be situated at a distance from the ceding company, a loss may occur before reinsurance is effective.

**Treaty Reinsurance.**—The reinsurance treaty is a contract between two insurance companies, whereby the direct insurer agrees to cede, and the reinsurance company agrees to accept, a certain proportion of the business as defined in the agreement. Reinsurance treaties are divided into two classes : excess cover treaties and quota share treaties.

**EXCESS COVER TREATIES.**—The terms of the excess cover treaty provide that the insurer retain a certain amount of the risk, and that the reinsurer accept a portion of the excess above the fixed amount retained by the insurer. To illustrate the excess cover, assume that an insurance company desires to retain \$5,000 liability on all risks. An agreement may then be made with a reinsurer whereby the reinsurer agrees to accept a certain amount, such as \$5,000, of each risk over \$5,000. If, for example, the original insurance company accepts a risk of \$6,000, the direct insurer would retain \$5,000. This leaves a balance of \$1,000 which the reinsurer would accept. In case the risk accepted were \$4,000, then the reinsurer would not share in the risk.

**QUOTA SHARE TREATIES.**—The terms of a quota share treaty provide for a fixed participation of the reinsurance company in every risk of a certain class accepted by the ceding company. Under the conditions of the treaty, the ceding company cedes a portion of every risk assumed,

regardless of whether or not the amount is within the underwriting limit which it has set itself. It gives the reinsurer an interest in the numerous lines which ordinarily a company would keep entirely to itself, and it tends to produce a good underwriting profit for the reinsurer, provided, of course, that the ceding company has been careful in the selection of risks. Since the reinsurance company participates in each and every risk, the reinsurance company is, therefore, in practically the same position as the insurance company which directly underwrites the risk. The direct-writing company is vitally interested in the type of risk accepted, because it is likely to suffer an underwriting loss in case the business is unprofitable.

Treaty reinsurance, as explained above, has been considered from the standpoint of the relationship between one insurance company and one reinsurance company. This is known as "first line reinsurance."

It is not uncommon for a ceding company to have another treaty, which is known as a "second line treaty," and in some cases there is also a "third line treaty." That is, after ceding a portion of a risk to one reinsurance company, the direct-writing company can cede portions of the remaining risk to other reinsurance companies. To maintain protection satisfactorily under a pyramiding process of this nature, the ceding company must be sufficiently large to guarantee a fairly adequate income for its reinsurers.

The treaty reinsurance agreement may be automatic or open. Under the automatic treaty, the direct-writing company is obligated to cede a portion of every risk of the claims described by the treaty. The reinsurance company is bound as soon as the direct-writing company accepts the risk. The open treaty provides that the direct-writing company has the right to cede whatever risks described by the treaty it desires to cede to the reinsurance company.

Under treaty reinsurance, the reinsurance company is commonly notified of transactions on a form called a *borderceau*. All essential details regarding the transactions are typed on the *borderceau*, and these are sent to the reinsurer at intervals, according to the terms of the contract. Considerable economy in details has been effected by the use of the *borderceau* method.

Under the treaty contract, the ceding company usually has sole underwriting powers, and the reinsurer is bound to accept all items without protest and to honor all drafts for losses which may occur under the contract. The contract mutually arranged and agreed upon contains all of the conditions under which cessions can be made. As long as the parties thereto follow the terms of the contract, the fortunes of the reinsurer are dependent upon the ceding company's good judgment and careful selection of risks and, above all, good faith. Some contracts may

provide that borderline risks be submitted to the reinsurance company on a facultative basis.

There may be occasions when, through clerical error, the ceding company has failed to notify the reinsurer of an amount which, under the reinsurance contract, is a legitimate amount to reinsure and the error is not discovered until a loss occurs. Some treaty contracts provide that a risk must be bound by the reinsurer before the cession is effective. In many treaty arrangements, however, if the error is satisfactorily explained, the cession is permitted to be dated back. Of course, there is danger in leniency in matters of this kind, and the ceding company leaves itself open to criticism if many such cases occur.

A commission is paid to the original company for the business ceded. The reason for this is that all the cost of underwriting, acquisition, and preparation of bordereau is borne by the ceding company. The reinsurer must maintain a fully equipped office, but the expense is low in comparison with that of the direct-writing company.

Some reinsurers allow extra commissions in addition to the regular rate of commission paid to the ceding company. The feasibility of this plan is a moot point because the reinsurance is effected automatically in any agreement, on all risks, and no particular effort is made by the ceding company to select the better class of risk for the reinsurer.

Provisions for taxes and fees may be included in the reinsurance contract, as chargeable to the reinsurer. In some cases it is doubtful if the rate of commission charged by the ceding company is sufficient to cover the entire expense chargeable to the reinsurer. Nevertheless the fact must be remembered that the ceding company derives ever-ready assistance and protection from the reinsurer, and that this is the chief purpose of the treaty.

**Insurance Pools.**—On occasion, a risk involves hazards that few companies might desire to accept individually. To meet this situation, insurance companies may enter a pool agreement. Any member company of the pool may write a risk covered by the pool agreement, subject to the rulings of the agreement. Under this agreement each company assumes liability for a certain portion of the risk.

The amount of liability accepted by each company depends upon several factors, including the financial condition of the company and its underwriting practices. While the pool is not an insurance company, it affords a means whereby an individual risk or a group of risks may be distributed among the various companies desiring or required to participate in the insuring of certain types of business.

**Underwriters' Agencies.**—In certain branches of insurance, such as fire, a risk may be accepted jointly and severally by a group of com-

panies writing that type of insurance. In this event the insured may have the right to hold all or any of the companies named in the policy for the full amount of the loss. If the risk is accepted severally, the insured looks to each company for no more than the amount as specified in each policy.

**Excess of Loss Insurance.**—A company may desire to limit its loss ratio in a given line of insurance. If prepared, for example, to suffer a loss ratio of 60%, the company could negotiate an “excess of loss” insurance contract whereby the reinsurance company would pay any loss above a stipulated percentage. It is also possible to limit the loss percentage of the reinsurance company. This restriction would obviously impose limits on the underwriting policy of the direct-writing company. This form of reinsurance is desirable to limit the effects of catastrophes which might otherwise seriously affect underwriters of particular lines of insurance.

**Portfolio Reinsurance.**—A company may desire to terminate its liability on risks in a certain line of insurance, or to retire from all risks written through a specified agent. By a form of reinsurance called “portfolio reinsurance,” the company may then reinsure the specific risks of a certain line of insurance or the entire business of the particular agency with another company.

A company may become insolvent, in which event the policyholders, as well as claimants, may suffer loss. Insurance companies, in their own interest, are usually concerned about the insolvency of other companies. The practice, then, is for one or a group of insurance companies, if possible, to reinsure the insolvent company. Sometimes a company will reinsure another company even if there will be a loss. The reinsurance company will, however, acquire the plant of the company reinsured, and probably obtain a number of the agents of the reinsured company. There is another possible source of profit, too, for the company which reinsures in bulk an insolvent company. The reinsuring company may be able to wind up the business at a lower expense rate than the company reinsured could, and favorable claim adjustments may be made if the amount of liability is not fixed by the policy.

**Retrocession.**—The basis of rate-making for a reinsurance company is the same as that for a direct-writing company. The law of averages applies to reinsurance as well as to insurance. Reinsurance companies must, therefore, be as careful as direct-writing companies to avoid concentration on similar risks. If, for example, a reinsurance company found itself heavily loaded with risks of certain types, it could arrange for the further reinsurance of part of these risks. When the reinsurance

company cedes part of these risks, the process is known as "retrocession." The ability of the reinsurance company to reinsure some of its risks further enhances the security of the insured and makes possible the success of the reinsurance company.

### QUESTIONS AND PROBLEMS

1. (a) What is the purpose of reinsurance?  
(b) *A* had purchased a \$50,000 fire insurance policy from *Company B*, which in turn reinsured \$10,000 of the risk with *Company C*. *A* suffered a \$50,000 fire loss. Discuss the rights of *A* against the *B Company* and the *C Company*.
2. (a) The *A Insurance Company* had issued a policy to *B* for \$10,000 against earthquake loss. The underwriting department believed that the company should not keep the entire risk. Describe methods of sharing the risk with other companies.  
(b) Explain the method by which members of a fleet of insurance companies reinsure their risks.  
(c) Discuss the limitations of facultative reinsurance.  
(d) The *A Insurance Company* entered into an agreement with the *B Insurance Company* whereby *A* would cede to *B* burglary insurance in excess of \$5,000 liability. The *A Insurance Company* wrote policies for \$2,500, \$8,000, \$4,000, and \$6,000. What liability was assumed by *B* under these policies?  
(e) What is the difference between the excess cover treaty and the quota share treaty?
3. (a) Describe the method by which risks are reported under treaty reinsurance.  
(b) The *A Insurance Company* had a quota share treaty with the *B Insurance Company*. *A* reported to *B* a \$50,000 policy written for *C*, but *B* was unwilling to participate in *C*'s policy. Discuss the rights of *A* and *B*.  
(c) The *A Insurance Company* has an excess treaty with the *B Insurance Company*. Through a clerical error, *A* did not report a \$10,000 policy written for *C*, who suffered a \$5,000 loss. Under the terms of the treaty, *B*'s share of the loss would have been \$1,000. Discuss the rights of the *A Insurance Company*.  
(d) How are commissions and other expenses charged in connection with treaty reinsurance?
4. What is the purpose of insurance pools?
5. (a) *A* obtained a single policy for \$150,000 issued by companies *B*, *C*, *D*, and *E*. *A* suffered a \$50,000 loss. The *D Insurance Company*

was placed in liquidation by the insurance department. Discuss the liability of each insurance company.

- (b) What if, in the case just presented, each company stated that its share of the liability was 25% of the amount of the policy?
6. (a) What is the purpose of excess of loss insurance?  
(b) Explain portfolio reinsurance.  
(c) Differentiate between reinsurance and retrocession.

## CHAPTER 27

### INVESTMENTS OF INSURANCE COMPANIES

**Investment Problems of Insurance Companies.**—When an insurance company accepts a premium, the funds so acquired must be used, in part, to pay future claims and to provide for a return of a portion of the premium to the policyholders, in case the policy is canceled before the policy period has elapsed. To meet these future obligations or reserves, the funds are invested in various forms of securities. Since the funds so invested are in effect a guarantee that the liabilities will be paid as they mature, great care should be used to guard against loss through investments.

Insurance contracts run for both short and long periods of time. In general, short-term insurance policies are used to protect against loss of property, while long-term policies provide protection against loss of human life. The investment problem of funds covering short-time risks is for the most part not difficult. Short-term investments and bank deposits can take care of the obligations. A company writing short-term risks should build up reserves, however, to meet possible future catastrophes. The problem of investing funds to meet this need is quite similar to the investment problems of life insurance companies.

The reserves for claims and unearned premiums of insurance companies present two important characteristics, as follows :

1. Liabilities are estimated on the basis of past experience. In the absence of a catastrophe, the reserve may generally be calculated scientifically. Hence the amount of assets required to meet the reserve may also be determined with fair accuracy.
2. In its investment practices, the company need not generally consider changes in the purchasing power of the dollar as far as reserve for premiums and unpaid losses are concerned, since the obligation is to pay dollars. The changing price level, however, is of much concern in connection with the capital or surplus of a stock company, and with the operating expenses of any company. Variations in the purchasing power of the dollar may also have a marked effect in certain lines of insurance where the company's liability is measured in terms of replacement values.

**Investment Principles.**—Several important factors governing the investment policy of insurance companies are (1) security of principal,

(2) adequacy of yield, (3) necessity of diversification, (4) marketability, and (5) maturity.

**SECURITY OF PRINCIPAL.**—Security of principal is the most important investment element, since the primary purpose of an insurance company is to pay claims. Investments of a speculative nature which involve the possibility of large profits as well as large losses should therefore be avoided.

**ADEQUACY OF YIELD.**—The premium charged to the policyholders in many cases anticipates interest to be earned from investments as part of the premium. If the insurance company is to meet future liabilities, its yield from investments must at least equal this anticipated interest earning. Because risk ordinarily varies in direct proportion to yield, insurance companies do not assume a high rate of interest on investments,  $2\frac{1}{2}\%$  or less frequently being the rate employed. The average yield may be in excess of the minimum required. In the life insurance field the excess has generally been used to reduce the cost of insurance to the policyholder.

**NECESSITY OF DIVERSIFICATION.**—An insurance company should not concentrate in investments. A good practice is to avoid putting too much in a single investment, or in a single class of investments, or in investments which are interdependent, or which depend upon the prosperity of one section of the country. Investments should be distributed geographically and among the various classes of securities. State statutes have been enacted to enforce this principle of diversification.

Decreases in earnings due to unfavorable conditions in certain businesses at various times are to be expected. Since other groups of business may at the same time be enjoying favorable conditions, the principle of diversification enables a company to avoid serious decreases at any given time.

Diversification of investments will also protect the general investment fund, in case securities in which the insurance company has invested are later affected by a change in the management of the company which issued the securities. Of course, an insurance company should not invest funds where there is information of possible future change in management which might affect the security value adversely.

**MARKETABILITY.**—Under normal conditions an insurance company need not pay special attention to marketability of securities. Usually current income will be sufficient to meet disbursements. In the event of a catastrophe, however, the insurance company would have to sell some of its investments. In such an event, marketability would have to be considered. As the insurance company usually possesses various

types of securities, there may always be securities which are about to mature or which could be sold in the open market. The fact that marketability of securities is not important enables insurance companies to invest funds in mortgages on improved property which offer an attractive interest rate.

**MATURITY.**—Because marketability of securities is not stressed, an insurance company should have on hand sufficient liquid funds to meet claims as they mature. Furthermore, insurance companies must consider the relationship between present and future interest rates. Sometimes a company will be carrying large amounts of cash on hand. One reason for this is that the financial executive is expecting a change in market prices, which in turn will affect the interest yield in favor of the insurance company.

**Legal Restrictions.**—The various states have imposed restrictions on the investments that a company may make. Essentially the purpose of these statutes is to make explicit the principles that govern the sound investment of funds, and at the same time to see that these principles are observed. In making explicit the principles, the law states the type of securities that may be purchased. The laws are not standard throughout the country. In general they state the types of investments for capital and the types of investments for reserves and surplus. The laws permit wider latitude in investments for reserves and surplus than for capital.

The various legal restrictions serve the following purposes :

1. Insuring sound investments and preventing speculation. This may be seen in the laws which limit the purchase of stock or real estate. Other laws require all purchases of securities to be authorized by the board of directors. Still other laws prohibit any director or officer from making or asking a profit in any transaction involving his company.
2. Elimination of improper practice. This is illustrated by the laws which prohibit participation in the underwriting operations of a security pool, or prohibit the insurance company from carrying on any other business except insurance.
3. Forcing investments in certain fields. This may be illustrated by legislation which requires life insurance companies to invest a percentage of the assets, carried to meet the reserve on policies of residents of a state, in the securities of that state.

**Investments Permitted.**—Some of the investments permitted by law are the following :

1. Bonds or other evidences of indebtedness or interest which are valid and legally authorized obligations issued, assumed, or guaranteed by the United States of America or by any state or by any

territory or possession of the United States or by any county, city, town, village, municipality, or district.

2. Loans upon unencumbered real estate up to a stipulated percentage, such as two-thirds of its fair market value.
3. Loans upon life policies, not exceeding the net value of the policy at the time of making the loan.
4. Stocks and bonds or other evidences of indebtedness of any solvent domestic corporation. A life insurance company is not usually permitted to invest in common stocks, though certain states are more liberal in this respect.
5. In those states where companies transact business abroad, they are permitted by statute to invest in the securities of foreign governments sufficient amounts to qualify under the laws of those countries to do business therein.
6. Real estate, if the property was acquired for the conduct of the company's business.
7. Real estate, if acquired in satisfaction of debts previously contracted in the course of business or obtained under foreclosure to save the company from loss. In these cases the real estate must be disposed of within a limited period which the insurance commissioner may extend if he decides the company will suffer materially from forced sale.
8. Real estate for persons of low and moderate income, exclusive of hotels.
9. Real estate other than property used primarily for agricultural, horticultural, ranch, mine, recreational, amusement, or club purposes acquired as an investment for the production of income.

**Effect of Economic Conditions.**—To a great extent the investments made by insurance companies have been affected by economic conditions existing at the time the investments were made. During the period immediately following the Civil War, there was a great need for capital to construct our railroads. Insurance companies invested heavily during the period in securities of railroads. During the two World Wars, insurance companies made extensive investments in various bonds issued by the United States Government. The funds of insurance companies have met some of the capital needs of the building construction industry.

**Suitability of Investments.**—Because of legal restrictions, investments of insurance have been made in the following classes: stocks, bonds, collateral loans, mortgage loans, real estate, and policy loans. The general suitability of these investments may be considered briefly.

**Stocks.**—Stocks may be objectionable as an investment for insurance companies on the following grounds:

1. If the insurance company has less than a controlling interest, the investment is at the mercy of those holding the majority interests.

2. If the investment is large, there is the temptation to control the company. This means participation in a business which is foreign to the business of insurance.

**BONDS.**—Legislation tends to favor investments in bonds which may be purchased with due regard to security, yield, diversification, marketability, and maturity. Furthermore, if a bond is a long-time issue, the investment expense is low. On the other hand, bond investments possess the serious disadvantage of a declining yield as the security back of the issue increases.

**COLLATERAL LOANS.**—These are loans secured by stocks or bonds as collateral. This form of investment is advantageous to an insurance company with large amounts of cash on hand at times when it is inadvisable to purchase securities.

**MORTGAGE LOANS.**—Mortgage loans offer insurance companies a very favorable form of investment, since, though not easily marketable, they offer an attractive interest yield. This fact may be demonstrated in the case of a life insurance company which maintains its reserves on a 2% basis, though earning a higher percentage on mortgages. Of course there are grave dangers in investing in mortgages. To protect itself, an insurance company should demand a title insurance policy from the mortgagor, as well as adequate insurance protection against loss of the improvement by accident, such as fire. As stated previously, the insurance laws generally prohibit loans in excess of a specified percentage of the market value of the property. After issuance of the mortgage the market price and earning power of the property may decline. In this event the insurance company may have to foreclose the mortgage and take a deed to the property. This danger may be minimized by a good mortgage department and a proper geographical distribution of mortgages.

Another way to safeguard mortgage investments is to require the reduction of the principal by payments over a period of years. The advantage of this requirement is that the margin of safety will be maintained or increased.

In addition to the attractive yield that mortgage investments offer, they permit a company to build up good will. Continued investments of this type bring the company close to the average man, and help in the fight to gain favorable public recognition.

**REAL ESTATE.**—Objections to the investment in real estate are the following :

1. The investment is frequently speculative. A decrease in price may cause a permanent loss in assets.

2. The investment cannot be marketed as easily as securities listed on the stock exchanges.
3. Determination of the actual value is difficult.
4. The investment requires the insurance company to enter a business foreign to that of insurance.

At the present time, due to emergency conditions, legislation has been enacted permitting the companies to invest in buildings for persons of low or moderate incomes. In addition, insurance companies are permitted to purchase certain types of business properties for income purposes. These investments are subject to strict limitations under the insurance law.

**POLICY LOANS.**—These are advances made on life insurance policies. The rate of return is attractive, and there is ample security for the loan. If the insured does not repay the loan, the policy will be canceled and the cash surrender value will be used to repay the loan. Nevertheless, extensive use of the policy loan is not good for the insurance company. As stated previously, if the loan is not repaid, the policy is lapsed and the number of policyholders is thereby reduced.

**Investment Control.**—With their growth, insurance companies, especially of the stock type, may seek to control many industrial corporations and thus become investment trusts. The management may be content to write insurance at a loss if necessary, if at the same time the initial capital, surplus, and collected premiums can be invested for control. Should this condition develop, legislation will effect the cure.

**Valuation of Investments.**—Investments that insurance companies make are further regulated by the method of valuation. Companies are required by law to carry certain assets at market value. If, for example, a stock were purchased during the year for \$125, and the market value were \$150, the stock would be valued at \$150 in the financial statement. On the other hand, if the market price were \$120, the latter value would have to be used for the statement. The theory on which this procedure is based is that the assets should be carried at the realizable value. Certain objections to this method may be mentioned:

1. If the market prices fluctuate rapidly, each day will see a new valuation of the stocks.
2. If the market value is less than the book value, the market value should be used; this is good conservative practice. If, however, the market value is greater than the book value, the book value might be used. A note might be added to the statement informing the public as to the amount of the market value above the book value. If this suggestion were followed, the surplus would not be increased by a fluctuation in the market.

3. This practice may lead to difficulties. If there should be a serious break in the market prices, even though temporary, a company might find itself theoretically insolvent. Furthermore, in time of national distress, the stock exchange may discontinue to function or prices may be pegged at certain artificial levels. In this event the state insurance departments would be forced to set figures based on artificial prices. In fact there have been times in the past when market values were not used, and when prices were fixed by the National Association of Insurance Commissioners.

**Amortization.**—Companies are permitted to use a different method for valuation of certain bond investments. The method used by insurance companies may be illustrated by the following: Suppose a company maintains its reserve on the assumption that money is worth 2% per annum. Having funds available for investment, the company seeks to purchase desirable securities. A bond paying 3% is purchased during the year at \$1,038.25. On December 31 the market value of the bond is \$1,028.25, \$10 less than the purchase price. Companies with sufficient surplus theoretically need never be concerned with a forced sale of securities to obtain cash to meet maturing claims, and the assumption is that the bond will be held to maturity. Furthermore, a life insurance company need not concern itself with the fluctuation in the market price as long as the interest is paid and the principal is paid at maturity. Therefore all that is required of the company is to provide funds sufficient to pay off the excess cost of \$38.25 at maturity of the bond, and thus avoid any depletion of assets. The method used to provide for excess cost is to accumulate the amount of interest received in excess of the required yield. This procedure is called “amortization.”

Table 28 illustrates the amortization of a \$1,000 bond bearing 3% interest, purchased at \$1,038.25, yielding 2% interest.

TABLE 28. AMORTIZATION OF A \$1,000 BOND BEARING 3% INTEREST, PURCHASED AT \$1,038.25, YIELDING 2%

Date	Semiannual Interest on Bond at 3%	Semiannual Interest on Book Value at 2%	Amount for Amortization	Book Value
Jan., 1947.....				\$1,038.25
June, 1947.....	\$15.00	\$10.38	\$4.62	1,033.63
Jan., 1948.....	15.00	10.34	4.66	1,028.97
June, 1948.....	15.00	10.29	4.71	1,024.26
Jan., 1949.....	15.00	10.24	4.76	1,019.50
June, 1949.....	15.00	10.20	4.80	1,014.70
Jan., 1950.....	15.00	10.15	4.85	1,009.85
June, 1950.....	15.00	10.10	4.90	1,004.95
Jan., 1951.....	15.00	10.05	4.95	1,000.00

Table 29 gives an example of the accumulation schedule for a \$1,000 bond bearing 2% interest payable semiannually, purchased for \$962.57, yielding 3%.

TABLE 29. ACCUMULATION SCHEDULE FOR A \$1,000 PREMIUM BOND BEARING 2% INTEREST SEMIANNUALLY, PURCHASED FOR \$962.57, YIELDING 3%

Date	Semiannual Interest on Bond at 2%	Semiannual Interest on Book Value at 3%	Amount for Accumulation	Book Value
Jan., 1947				\$ 962.57
June, 1947.....	\$10.00	\$14.44	\$4.44	967.01
Jan., 1948.....	10.00	14.51	4.51	971.52
June, 1948.....	10.00	14.57	4.57	976.09
Jan., 1949.....	10.00	14.64	4.64	980.73
June, 1949.....	10.00	14.71	4.71	985.44
Jan., 1950.....	10.00	14.78	4.78	990.22
June, 1950.....	10.00	14.85	4.85	995.07
Jan., 1951.....	10.00	14.93	4.93	1,000.00

CONSIDERATIONS FOR OR AGAINST THE PRACTICE OF AMORTIZATION.—The practice of amortization has been both commended and criticized. The contention is that market value should be used. The merits of this contention may be summarized as follows:

1. Since an insurance company is a trust institution, there is only one test for value, and that is the market value. If a large number of bonds were offered in the market, the market price would probably decrease. Therefore market price is only a theoretical price. Furthermore, the market price might be affected favorably or unfavorably by the operation of a pool.
2. By the use of amortized values higher than the market value over a period of time, the surplus is increased by a fictitious amount. In fact it is possible that a company might be solvent if its bonds were valued on the amortization basis, and yet, if the company decided to liquidate, the assets would be insufficient to meet the reserve. As an answer to this argument, the contention is made that a company need not concern itself with liquidation. Under ordinary circumstances the company would continue in business long after the maturity of the bond. Therefore if the security back of the bond is good and if the interest is paid regularly, no consideration need be given to market value.
3. If amortized values are used, mistakes in investments may be hidden from policyholders. This argument is answered by the fact that whenever a financial statement is prepared a schedule must be an-

nexed stating the purchase price, amortized value, market price, and interest yield.

4. If the company must sell bonds carried on the amortized basis, and if the market price is lower than the amortized value, a loss will be suffered. The answer is that usually the ordinary income from premiums and investments is more than sufficient to pay disbursements. If the company expects to disburse more than the income, maturities of bonds may be arranged to provide for the difference. Losses may occur when there is a lack of coordination between the investment department and the actuarial department which computes the reserves; when investments are made without considering the maturity of claims; and when a catastrophe is experienced. These possibilities, however, are remote.
5. The tendency is to sell those bonds whose market values are above the amortized value, and keep bonds whose amortized values are below the market price. This might seriously affect the solvency of the company. However, insurance companies purchase bonds as a permanent investment. While the investment department of an insurance company studies the market closely, blocks of bonds owned by the insurance company are not normally thrown on the market. Insurance companies are usually purchasers and not sellers of investments.
6. An anomalous situation arises when insurance companies purchase the same type of bonds and carry them at different amortized values on their statements. One company, for example, might purchase a bond of a certain issue paying 101, and another company might purchase a bond of the same issue at 102. Since the premium in each case is different, the amortized value would be different. While this may be anomalous, corresponding anomalies may be found in other fields. An insurance company, to take another case, may give \$15,000 on a mortgage on one house at 4%, and the same amount on an adjoining house, which is similarly constructed, at 5%. Nevertheless each mortgage is carried at \$15,000 in the financial statement.
7. The difference between the amortized value and market price might be used as surplus out of which dividends are paid. The answer to this argument is that a prudent management would give consideration to its sources of surplus.

**Insurance Stocks as Investments.**—The investments of insurance companies have become so huge that many individual investors are guided, in the investment of their own funds, by the investments made by insurance companies. As a result of this development many have become interested in the shares of stock insurance companies.

Other incentives for investment in insurance stocks include the following:

1. Profits made by certain companies.
2. Capital requirements of large companies which must be met in part from outside sources.
3. Appeal to local sympathy for subscriptions in a local company.

The value of insurance company stocks is largely determined by the profit made from underwriting risks and the return on investments. Theoretically the value of the outstanding stock may be obtained by determining the balance remaining after deducting the liabilities from the assets. If this balance is divided among the total shares outstanding, the value of each share will theoretically be determined. So far as insurance stocks are concerned, the theoretical value will be affected by the following considerations :

1. Management. This factor may be ascertained by the past record of the company.
2. Excess of estimated claim reserves. Reserves should be adequate. The amount set aside, however, may be more than needed to pay the claims.
3. The reserve for unearned premiums. This reserve, which is set aside by the fire and casualty companies, may be greater than necessary. The fact that the company has disbursed a good part of the premium received for expenses, practically at inception of the policy, is not considered in computing the amount of reserves necessary for unearned premiums. For example, the following expenses have to be paid almost immediately: preparation and issuance of the policy contract, underwriting and investigation of the risk, and commissions. These amounts are not deducted from the unearned premium reserve. Furthermore, if the risks accepted are good, that portion of the unearned premium reserve available for future losses may not be entirely consumed.
4. Assets for which the insurance company cannot take credit in computing the surplus. In computing surplus, the company is not permitted by law to include certain assets. Examples of such exclusions are accounts due over 90 days in the case of fire and casualty companies, and furniture and fixtures.
5. Possible increase or decrease of the value of investments in stocks and bonds. Valuation of the stocks and bonds in the company's portfolio will depend upon careful analyses of the issuing corporations, and estimates of their future earning power and the trend of future market prices.
6. Good will. A company which has developed a good loyal agency force is in a position to make profits. The development of an efficient force requires time and money. Insurance companies constantly seek executives who are popular with agents. Certain companies also spend money for national advertising designed to make their names known to the public at large. A commercial organization

may set up an asset for good will, representing at least the money spent in developing good will; but insurance companies are not permitted to count good will, for any amount, as an asset. Any money spent for this purpose is deemed a disbursement.

### QUESTIONS AND PROBLEMS

1. (a) Compare the investment problem of a fire insurance company with that of a life insurance company.  
(b) Summarize the provisions of the statute of your state concerning investments permitted by life insurance companies.  
(c) Contrast the provision of the statute of your state governing life insurance investments with the restriction imposed upon investments of fire and casualty companies.  
(d) The investment committee of the *A Life Insurance Company* is confronted with the problem of investing surplus funds. Comment on the suitability for investment of the purchase of stocks, bonds, collateral loans, mortgages, real estate, and policy loans.  
(e) Explain how the investments of insurance companies have aided in the economic development of the country.
2. (a) The *A Fire Insurance Company* purchased \$15,000 worth of stock of the *X Automobile Company*. On the date of the annual financial statement of the company, the market value of the stock was \$20,000. The company also held *Y Automobile Company* stock which it had purchased for \$20,000. On the date of the financial statement, the market value of the *Y Automobile Company* stock was \$14,000. How should these stocks be valued in the financial statement of the insurance company?  
(b) State the advantages and limitations of the method used in the last problem.
3. (a) Contrast the method of bond valuation with that used for stocks at any financial statement date.  
(b) Construct the amortization schedule of the premium on a \$1,000 bond, with interest at 4% payable January 1 and July 1, maturing on January 1, 1957, and purchased January 1, 1947, by the *A Life Insurance Company* at a price to yield 3%.  
(c) On January 1, 1947, the *A Life Insurance Company* purchased a \$1,000 bond, bearing 2½% interest payable January 1 and July 1, due January 1, 1957, at a price to yield 3%. Prepare the schedule of accumulation.  
(d) List the considerations for and against the practice of amortization.
4. (a) What are the incentives for the purchase of insurance stocks?  
(b) Indicate how the book value of an insurance company stock is computed, and its relation to market value and liquidating value.  
(c) What factors affect the theoretical value of insurance company stocks?

## CHAPTER 28

### STATE SUPERVISION

Insurance companies permitted to do business in several states frequently find different statutes concerning the same subject in the various states. An attempt to eliminate some of the differences has been made through the organization of the National Association of Insurance Commissioners, in which the insurance department of each state has membership. This association has prepared uniform legislation and rulings for use in each state.

Broad powers and duties have fallen to the state department which has supervision over the insurance companies. These functions are customarily administered through one individual called the insurance "commissioner" or "superintendent." As an illustration of the extensive powers of the superintendent, the statute may provide that the superintendent of insurance has been granted by the legislature the power to administer the law in any way that will best promote the interest of the people. In view of the broad powers granted to the superintendent, he frequently makes general rulings on a given subject which will guide his future decisions. As those rulings are assumed to be for the best interest of the business, insurance companies generally follow these rulings. A new commissioner is not necessarily bound by the rulings used by any predecessor. He may change these rules to meet any new situation.

The powers of the commissioner or superintendent cover the following activities :

1. Examination of insurance companies.
2. Incorporation of insurance companies.
3. Sale of stock.
4. Licensing of insurance companies.
5. Reserves of insurance companies.
6. Investments of insurance companies.
7. Cost of doing business.
8. Deposits of insurance companies.
9. Wording of policies and endorsements.
10. Regulation of rates.
11. Acquisition of business.
12. Discrimination.

13. Settlement of disputes between insurance companies and insurers.
14. Licensing of brokers and agents.

**Examination of Insurance Companies.**—Under the law, the insurance commissioner has the power to examine all records of insurance companies. It is customary to provide by law for periodic examinations at intervals of not less than, for example, three or five years. The commissioner may appoint assistants to conduct the examination. When an examination is completed, the assistants must report to the commissioner in writing the facts ascertained by the examination, and recommendations for corrections and improvements. The commissioner may publish these reports, and it is customary to give representatives of the company a hearing before any report is published. Hearings demanded by the company or held by the commissioner for any other reason are conducted informally.

**Incorporation of Insurance Companies.**—The incorporation of insurance companies is strictly controlled. Statutes generally provide a definite minimum amount of capital for the incorporation of a stock insurance company that desires to accept risks in certain lines of insurance. If the proposed corporation is to be a mutual, the law may require a guarantee fund as well as a specified amount of business available for the proposed corporation before the company is permitted to transact business. There is usually a requirement for a minimum number of incorporators. One law requires 13 incorporators.

In certain states the certificate of incorporation is issued by the secretary of state. The decision of the insurance department usually guides the secretary of state. Any group of persons who desire to form an insurance company may visit the superintendent of insurance in order to ascertain his opinion concerning the desirability of forming the corporation, and what requirements he may demand in order that the group may receive permission to form the insurance company.

**Sale of Stock.**—The law exercises control over the sale of stock of an insurance company. Before stock may be sold, a license must usually be obtained from the insurance department. The superintendent must be satisfied in the following before granting the license.

1. The plans and purposes of the organization.
2. A reasonable amount of stock will be issued and sold at an adequate price.
3. Commissions and salaries for the sale of the stock will be fair.

**Licensing of Insurance Companies.**—Perhaps the greatest power of the insurance commissioner is his power to grant licenses without which no company has the right to do business in the state. A license

must be issued by the superintendent, whether the company is one organized in the state or is a foreign corporation organized in another state or an alien corporation organized abroad. In most states the license is issued annually, but in others, domestic companies are required to obtain one license which continues unless and until renewed. The insurance superintendent may revoke or refuse to renew the license. Any company which operates without a license cannot usually sue for premiums which are due from policyholders. An agent of a particular state who does business for a company which is not licensed in the state is held personally responsible for any losses suffered by an insured who obtained a policy through the agent. The grounds on which licenses may be refused are numerous, and they may be classified as general or specific. The general ground is illustrated by the laws of one state providing that the superintendent may refuse to issue a license if in his judgment such refusal will best promote the interest of the people of the state.

**Reserves of Insurance Companies.**—The state is usually little concerned with the accounting methods of solvent industrial companies. However, the insurance law gives the superintendent power to regulate the valuation of reserves of insurance companies. Important reserves of an insurance company are reserves for unpaid claims and reserves for unearned premiums. The various insurance laws aim to regulate the valuation of these reserves. For example, the law may describe the method of computing the reserve for unpaid claims due under the various forms of liability policies. The insurance department may regulate the method of computing the premium which has not yet been earned by the company and is, therefore, a liability of the company to the policyholders. Similarly, the insurance department supervises the method whereby the reserves of life insurance companies, in connection with policies and annuities, are calculated, as the law may name the table which the life insurance company must use to compute these reserves.

**Investments of Insurance Companies.**—The insurance law limits the investments of life insurance companies. Fire, casualty, and marine insurance companies, however, have wide investment powers, already discussed at length in Chapter 27.

**Cost of Doing Business.**—In the interest of financial safety, some legislation has been directed to limiting administrative expenses of insurance companies. Efforts to control expenditures have been applied usually to all departments except the claim department. Certain laws, for example, set limits on acquisition costs for the first year of life insurance policies. Under another law, the entire amount of administrative expenses of several types of mutual companies is limited to a specified percentage of premium income.

**Deposits of Insurance Companies.**—The various insurance laws provide that the insurance company must deposit a definite amount of security with the state. The purpose of this deposit is to protect claimants. The general creditors cannot participate in this deposit until all claims of third parties arising out of policy contracts and the rights of policyholders are settled in the state in which the deposit was made.

**Wording of Policies and Endorsements.** —The wording of several policies issued by the insurance companies has been enacted into the law, as exemplified by the provisions of the standard fire insurance policy. Each company which desires to cover any fire insurance risk must use the policy form stated in the law. Many laws require specific clauses, known as standard policy provisions, to appear in certain policy forms. The standard policy provisions of life, accident, and health insurance policies are examples of this type. Some statutes require the use of standard endorsements. For example, liability policies may be required to provide that bankruptcy of the insured does not release the company from liability against third parties with claims against the insured who has become bankrupt. Finally, certain statutes require companies to use only policy forms approved by the superintendent of insurance in certain lines of insurance.

**Regulation of Rates.**—The insurance law may provide for the regulation of rates. Under certain statutes the superintendent must supervise the rates in certain lines of property insurance in order to insure their adequacy. Under other statutes the insurance company must file rate schedules with the state and obtain approval before the rates may be used. The insurance commissioner may be empowered to order an increase as well as a reduction in rates. The power to regulate rates incidentally gives the superintendent the power to regulate various rules and practices of the insurance companies.

Rates for the life insurance business are regulated through laws requiring the use of certain standard life insurance tables for computing reserves. The law may also regulate payment by mutual insurance companies of dividends which result in a reduction of the premium charge and provide the methods when and whereby guarantee funds of mutual companies may be returned.

**Acquisition of Business.**—The insurance law regulates the methods by which insurance companies can acquire business. Companies are prohibited from misstating any facts or omitting any pertinent facts orally or in any publication. Sometimes business is obtained by misrepresenting the facts concerning a policy in another company. This is known as "twisting," and is a serious offense under the insurance law. Further-

more, the law prohibits statements concerning future dividends that may be paid by mutual companies.

**Discrimination.**—The insurance law prohibits any discrimination between like risks. If the risks present exactly the same hazard, each risk must be charged the same rate. Under the law all policyholders are assumed to be treated alike.

**Settlement of Disputes Between Insurance Companies and Insured.**—Frequently when an insurance company refuses to pay a claim, the insured must resort to legal action which may involve considerable expense. Some laws have given the superintendent the right to interfere in disputes. The department of insurance may have a complaint bureau to help claimants and attempt the settlement of disputes. If the dispute involves a question of law, however, the bureau will not interfere.

**Licensing of Brokers and Agents.**—Under the law no one can act for an insurance company as an agent, or represent the insured as a broker, until an application is filed giving information concerning the individual. References may also be required. In the past, granting of permission by the state to act as agent or broker followed the filing of the application. There is a tendency in the states to require the applicant to pass an examination concerning his knowledge of insurance. This subject was discussed on page 702.

### QUESTIONS AND PROBLEMS

1. (a) Statements of the *A Insurance Company* showed that it had a capital and surplus of \$1,002,500 in a statement issued in one state, and a capital and surplus of \$1,000,000 in another statement issued in another state. Account for the difference in capital and surplus.
- (b) The superintendent of insurance refused to grant a brokerage license to *A*, based upon investigations made by the insurance department. Two years later the successor to the superintendent issued a license to *A*. State the reason why the latter could grant a license to *A*.
- (c) The examiners of the insurance department prepared a report based on their examination of the *A Insurance Company*. The report stated that the claims department of the company refused to pay claims unless judgment was rendered by the court against the company. The officers of the company demanded a hearing on the report, and they stated that claims were frequently based upon fraudulent statements and that they had therefore decided that every claim should be litigated. The officers demanded that

the examiners' statement be deleted from the report. Discuss the rights of the insurance company.

- (d) A group of individuals decided to form a mutual insurance company. Under the law, the charter could not be granted unless \$100,000 was available for the guarantee fund. Securities covering the amount of the guarantee fund were deposited with the state. A surplus of \$500,000 was accumulated after the company had been in business for ten years. The members of the insurance company that had given the guarantee fund demanded the return of their money. The policyholders, however, objected to the return of this money. Discuss the rights of the policyholders.
2. (a) What methods are used to control the sale of stock of a proposed insurance company?
  - (b) Distinguish among domestic, foreign, and alien corporations.
  - (c) *A* obtained a \$5,000 fidelity bond covering his employee, *B*, from an agent of the *C Insurance Company*. *B* absconded with \$2,500. When *A* notified the agent, he discovered that the *C Insurance Company* was not admitted to do business in the state. Discuss the rights of *A*.
3. Describe the reserves of insurance companies that are regulated by the insurance department.
4. Legislation was enacted providing that the superintendent of insurance may not permit certain mutual insurance companies to spend more than 40% of the premium income for all expenses except claim expenses. Statistics showed that stock companies writing the same line of business spent 45% for all expenses except claim expenses. The mutual company objected to the right of the superintendent to limit their administration expenses. Discuss the rights of the superintendent.
5. Indicate the types of policies which have been standardized and brought under state control.
6. (a) The *A Life Insurance Company*, organized as a mutual, has paid 25% dividends on certain policies for many years. *B*, an agent for the *A Life Insurance Company*, solicited *C*, and declared that the same dividend rate would be paid for the next five years. Two years later, however, the dividend was decreased to 15%. Discuss the rights of *C*.
  - (b) In order to obtain *B*'s insurance business, *A*, an agent, issued the policy at a rate of \$1.40 instead of \$1.50, which was the rate charged to similar risks. Discuss the rights of *A* and *B*.
  - (c) *A* purchased a \$1,000 burglary insurance policy from *Company B*, and subsequently suffered a \$500 burglary loss. The insurance company refused to pay the claim, stating that *A* had made a misstatement in his application for insurance. What steps may be taken to settle the dispute?

## CHAPTER 29

### LEGAL INTERPRETATION OF THE INSURANCE CONTRACT

**General Principles.**—An insurance policy is a conditional contract whereby the insurance company agrees to pay the insured for some specified loss, damage, or liability which may arise from some contingent event. To validate the contract, there must be present a specific risk which the insurance company assumes.

The policy may cover any loss resulting from the negligence of the insured, provided there is no fraud on his part. If the loss results from an intentional act of the insured, there is usually no liability under the contract. It is against the law for an insurance company to assume a risk which is illegal. The insurance policy, therefore, must be regarded, not as a wagering contract, but as a contract whereby the insured aims to avoid any loss contingent upon some scientifically measurable element of chance.

The contract of insurance is regarded as an executory contract. It is executed usually on one side by the payment of the premium covering the policy period, and on the part of the insurance company it remains executory. The insurance company completes its part of the contract by providing protection against the potential loss assumed by the contract, or by indemnifying for actual loss. The contract may include conditions which must be met by the insured in order that he shall be entitled to the payment of any claim under the policy. For example, a mercantile burglary insurance policy requires the insured to keep records from which a loss may accurately be determined. If this condition has not been met by the insured, he is not entitled to the benefits of the policy.

The insurance contract is usually personal in nature. When the insured purchases a policy from the insurance company, he considers the character, the credit, and standing of the insurance company. Likewise, the insurance company investigates the character, standing, and attitude of the applicant for insurance.

Since the contract is personal, it attaches only to the person. If, for example, an owner protects his property by insurance and then sells his property, the new owner is not automatically entitled to the coverage. As a general rule the contract does not accompany the property. There

are, however, a few exceptions to this general rule. Property, for example, may be covered by a perpetual fire insurance policy which automatically follows the owner in whatever hands the property may be.

When entering into a contract of insurance, both sides must observe good faith. They must disclose all the necessary and material facts which affect the issuance of the policy.

The essential purpose of the insurance contract is indemnification. If the insured stands to gain in case of loss, the contract is void on the grounds that it involves a wager. As a general rule the amount to be collected by a policyholder on property insurance for a loss cannot be agreed upon in advance unless allowed by statute. Valued fire insurance policies, for example, are permitted by statute in certain states.

The life insurance contract, like that of insurance for protection against property loss, is theoretically based upon the principle of indemnity, but unlike the property insurance contract it is not actually a contract of indemnity. This lies in the nature of the case. With regard to property, in the absence of a law permitting valued policies, the liability of the insurance company is the replacement value of the property, generally at the time of loss. It is impossible, however, to state with accuracy a valuation of any man's life. The insured arbitrarily decides the money value of his life for himself. Of two individuals with the same financial standing, one may carry policies for only \$5,000, the other policies for \$50,000. Both have valid contracts, since a life insurance policy for any amount is valid if the company is willing to issue the policy to the insured. Therefore the principle of indemnity, while theoretically operating in life insurance, does not actually operate. It has, however, in certain cases, power to make the life policy partially void. If, for example, a creditor has obtained a policy on the life of a debtor to guarantee payment of a debt due from the insured, and if the amount is greatly in excess of the obligation, the policy will be enforceable only for a reasonable amount.

**Insurable Interest.**—To recover on an insurance policy, the one who obtains the insurance must have an insurable interest. Insurable interest has been variously defined. With respect to property, it exists where the insured has a pecuniary interest in preserving property or, in other words, where the insured will suffer loss by the destruction of property. A person has an insurable interest in a property if the destruction of the property would cause him a money loss, the loss of a legal right, or the creation of liability.

The following are examples of an insurable interest in property :

1. Ownership of property in fee.
2. Interest arising from the giving of a mortgage on property.

3. Interest on account of acting as a bailee, commission house, or warehouse man in connection with property.
4. Interest which arises as a result of occupying the property as a lessee, and the possible loss of use of the property as a result of a contingency, such as fire.
5. The interest which arises from law-imposed liability for the property of others. A railroad carrier, for example, is liable for any loss or damage to property in its possession, except through an act of God, war, or invasion or inherent nature of the goods.

The valuation of the insurable interest is limited to the insured's interest in the property. The recovery, for example, by a lessee who has insured the property against fire, is limited to the cash value of his lease.

A valid insurable interest should generally exist at the time the policy is issued. In certain cases the policy is valid if the insurable interest exists at the time of the loss. If there has been a suspension of the insurable interest, the contract is not invalid, provided the interest has been recovered at the time the loss occurs.

Similarly, there must be an insurable interest to support the contract of life insurance. The insurable interest must exist when the life insurance policy is issued. Every person has an insurable interest in his own life. He can usually insure his life for the benefit of his own estate or for any other person whom he cares to designate as his beneficiary. The beneficiary does not have to possess an insurable interest in the policyholder's life when the first premium is paid by the policyholder and not the beneficiary. Blood and marriage relationship, such as that of father and child and of husband and wife, is sufficient to sustain the requirement for insurable interest. Accordingly, in the absence of statutory provision to the contrary, the beneficiary may procure insurance and pay the premium on the life of another person closely related to him by blood or marriage. Furthermore, a commercial relationship is sufficient basis for insurable interest. For example, one partner may pay for a life insurance policy upon the life of the other partner in order to protect himself against suffering a loss upon his partner's death.

As distinguished from other branches of insurance, subsequent termination of the insurable interest will not invalidate the life insurance contract. If, for example, a creditor has obtained a life insurance policy to protect his loan in case of premature death of a debtor, and the debt is later paid, the policy is not void.

**Divisibility of the Insurance Contract.**—As a rule, the contract of insurance generally is regarded as an entire contract and not as a divisible contract. If, however, the intention of the parties was to make the contract divisible, it will be so interpreted by the courts. When, for example, a contract is negotiated covering several pieces of property

for which separate premiums are paid, the invalidity of one part of the contract will not make the entire contract void. This interpretation will not be permitted if contrary to any condition of the contract. When the contract contains a statement that any misrepresentation or breach will render the entire policy void, this statement is rigidly interpreted as applying to an indivisible contract. In case the misrepresentation does not materially increase the hazard, however, the contract may not be invalidated.

**Validity of Contract.**—The following elements that are required for the validity of any contract must also be present in an insurance contract :

1. There must be an agreement which arises from a request from the applicant for insurance, an offer by the insurance company, and an acceptance by the applicant.
2. Both parties must be legally competent to enter into a contract.
3. The contract must be evidenced by the giving of a valuable consideration by the insured.
4. The policy must be for a legal purpose and not one which involves violation of public policy.
5. The policy must contain all the provisions which are required by law.

**Parties.**—As stated previously, every policy of insurance must have two parties—the insurance company and the insured. In addition there may be a third person interested in the contract. Third parties who may be entitled to benefits under the policy include the beneficiary of a life insurance policy, the holder of a marine insurance certificate, an employee under a workmen's compensation policy, and parties injured as a result of negligent driving by the owner or by the representative of the owner of a vehicle insured against bodily injury.

In the absence of restrictive legislation, any individual, association, or corporation may become an insurer. In other words, whoever wishes to go into the business of insurance may do so, as is well illustrated by the individual underwriter at Lloyd's. In the United States, however, the various states have imposed certain conditions upon all persons who desire to write insurance.

As stated previously, the insurance business is usually conducted by corporations (either stock companies or mutual companies) or by reciprocal organizations. The laws of the various states impose both formative procedure and regulations for the conduct of these various enterprises.

**Rights of the Foreign Insurance Companies.**—Under the constitution of the United States, any citizen of one state has the same right to enter into a contract in a second state as a citizen who is a resident of the

second state. Corporations do not come within the meaning of the word "citizen." The state, therefore, has the power either to exclude or admit any foreign insurance corporation on any condition which the state authorities deem reasonable. The license granted by the state to a foreign corporation can be revoked by the state.

**Competent Parties.**—To enforce a contract of insurance, the parties must be legally competent. Anyone who can make a valid contract can become a party to a contract of insurance. An insurance contract made by an infant cannot be upheld against him on the ground that it is a contract for necessities. The contract is valid, however, unless disaffirmed by the infant. If the infant disaffirms the contract, he is not necessarily entitled to recover the premiums that have been paid. He may, however, obtain a portion of the premium if the policy so provides. Incidentally, legislation has been enacted providing that a minor who is not less than 15 years of age, as determined by the nearest birthday, is competent to contract for life insurance on his life with limitation as to designation of the beneficiary.

Alien friends are competent to enter into a contract of insurance. A contract made by an alien enemy is void. During a period of war, contracts made by former alien friends, who have become alien enemies, are suspended.

Following the general law of contracts, an insurance contract negotiated with a person of unsound mind is void if he has been judicially declared insane. When the insanity was not known at the time the contract was entered into, the contract is voidable. In case the insured becomes insane after the contract of insurance has been made and he cannot fulfill the conditions required by the policy, the insurance company is relieved from liability. If these conditions are not essential, however, insanity which arises after the making of a contract will not free an insurance company from liability.

To understand the status of a contract and the rights of the respective parties in the eyes of the law, the reader must comprehend the significance of the terms "void," "voidable," and "unenforceable." When a contract is declared void, neither party is bound, since the agreement is construed never to have originated. A voidable contract, however, may be set aside, usually at the option of one party, or he may choose to affirm the agreement and to bind the other party. An unenforceable contract differs from these two in having been valid in the first instance, but through some contingency is no longer enforceable in the courts. The validity of a debtor under the Statute of Limitations and the occurrence of war are examples of contingencies which may render unenforceable otherwise valid contracts

**Rights of Third Parties.**—The rights of the parties under the policy are determined by a reasonable interpretation of the terms and the conditions stated in the policy. As stated previously, it is possible that a third person may be entitled to the benefits of the policy. The third person may be a beneficiary under a life or accident insurance policy, a mortgagee, or an assignee.

**Rights of the Beneficiary.**—As explained, a beneficiary is one who is designated by the insured to receive the amount designated by him under the policy. Under a life insurance policy, the right of the beneficiary depends upon the method by which he has been designated; that is, whether he has been vested with the right to the proceeds absolutely or conditionally. If he has been vested absolutely without the reservation by the insured of the right to change the beneficiary or, to use another term, without the right of revocation, the beneficiary has a vested interest in the policy. While the policy is in force this right cannot be set aside by any of the acts of the insurance company or of the insured without obtaining the consent of the beneficiary. Under these terms the right of the beneficiary may be defeated only by his death prior to the death of the insured.

If the insured retains the privilege of changing the beneficiary, the latter has no vested interest but merely the expectancy of a benefit. On the other hand, the designation of the beneficiary may be conditional—contingent upon the happening of some prior event. The insured may, for example, appoint *A* as beneficiary, and in case of death of *A*, *B* as the beneficiary. If *A* dies before the insured, *B* then becomes the beneficiary.

After a loss occurs, debtors as third parties can levy on any claim of the insured against an insurance company. This does not apply to insurance on property which is exempt from levy by statute. Policies of life insurance which are payable to the insured or his estate are subject, at maturity, to the claims of creditors. In addition, life insurance policies generally can be levied on before maturity, for the payment of debts, provided the policy has a surrender value. However, if the insured has designated a beneficiary, excepting his estate, the insured's creditors have no right generally to any interest in the policy.

**Rights of the Assignee.**—As a general rule, policies of insurance provide that assignment cannot be made without the consent of the insurance company. If the consent of the insurance company has been obtained, the assignment is considered valid. The insurance company will be bound by the terms of the original contract if the assignee has an insurable interest.

The life insurance policy, unlike other types of policies, may be assigned to one who has no insurable interest, provided the assignment is made in good faith.

The policy may be assigned conditionally as well as absolutely. To illustrate an assignment of the conditional type, take the case of a policy assigned without the consent of the insurance company and held as collateral security for the payment of a debt. In this event the right of the assignee to any proceeds of the policy is limited to the repayments of the debt and of charges that have been incurred. On the other hand, if the assignment has been absolute and there has not been any fraud, the assignee may be entitled to the entire proceeds of the policy, even if these be in excess of the amount advanced.

**Rights of the Mortgagee.**—The right of the mortgagee as the third party under an insurance policy varies in accordance with the terms of the policy. When the mortgagee has obtained the policy in his own name, the mortgagor has no right to the proceeds of the policy. If the mortgagor has insured for the benefit of the mortgagee, however, the proceeds in case of loss must be applied to the payment of the mortgage and cannot be used to repair the property without the consent of the mortgagee.

**Making the Insurance Contract.**—In order to effect a contract, there must be an offer by one party and an unconditional acceptance by the other. The form of the offer and acceptance is not important. The contract of insurance may be oral, unless this oral contract is prohibited by statute. Furthermore, a temporary contract may be entered into orally in anticipation of a written contract. In any case it must be a complete contract containing all the terms and conditions.

To complete a contract all the essential terms must be expressed or implied. Furthermore, the validity of an oral contract prepared with an agent depends upon whether the agent of the corporation who is acting for the insurance company has the authority to make an oral contract.

For the most part the insurance contract is evidenced by some writing. This writing may be either in the form of a slip known as a "binder" or in the form of a policy. The binder is a written memorandum to be replaced later by a policy, and offering protection temporarily to the insured. If a loss occurs while the binder is in force and before the policy is issued, the rights of the insured are subject to all the conditions contained in the policy subsequently issued.

A contract of insurance may be based upon an application prepared by the insured. If the application is accepted by the insurance company, and if reference is made to it in the completed contract, this application

then becomes a part of the completed contract and binds both the insurance company and the insured. By agreement, the application, when accepted, may become a binding contract even though the policy is not issued.

The completed contract of insurance naturally merges all oral statements which may have affected the transaction. In the absence of fraud it is presumed that the parties have consented to all the terms of the policy. Furthermore, any conditions which the insured is required to perform prior to the issuing of the policy must have been satisfied. The courts have held that there is sufficient delivery of the policy when facts can be shown to prove that the insurance company intended to be bound by the policy. In the absence of specific agreement it is not essential that the policyholder should have actual possession of the contract.

The contract of insurance, as well as containing all the terms, may make reference to papers which are not physically part of the written contract. The contract may consist of the following divisions :

1. Application and surveys which may be referred to in the policy and made part of the contract by the terms of the policy.
2. All the terms set forth in the policy.
3. Any endorsements made with the consent of the insured and the insurance company and attached to the policy.
4. Provisions stated in the charter of the insurance company giving it the authority to write the insurance policy.
5. Any statutes which may affect the policy.

**Consideration for the Contract.**—The parties of the contract may make any arrangement they desire for the payment of premiums. Theoretically, premiums are supposedly payable in advance. However, in the absence of any provision concerning the payment of a premium, if the policy has been delivered to the insured, although the premium has not been paid, the policy is in full force and effect. When the policy provides that the premium must be paid in advance in order to complete the contract, no evidence can be offered concerning the validity of the contract unless the premium has been paid or payment in advance has been waived by the insurance company. If the policy states that the premium has been paid, though contrary to fact, it is generally held that evidence of nonpayment cannot be introduced.

The consideration for the contract is the agreement on the part of the insured to pay the premium, or to pay the premium and any subsequent assessments. This latter provision, of course, usually applies to contracts with mutual insurance companies. Any assessments levied in accordance with the terms of the agreement can be enforced legally against the policyholder.

If, for example, the insured fails to pay his life insurance premiums, the insurance company can terminate his policy, subject to any rights provided for in the policy or by statute.

The premiums may be paid by the insured, his agent, or any other person who may have an interest in the insurance. The mortgagee, who holds a fire insurance policy, obtained by the mortgagor and payable to the mortgagee, may pay the premium for the policy if the mortgagor fails to do so.

There is no assumption under the insurance contract of any agreement binding the insured to pay subsequent premiums for renewal of his policy. In the event, however, that a policy provides for renewals, nonpayment of the required premium terminates or limits the company's liability.

In the absence of express provision, the insurance company is not required to give the insured notice of the date on which the premium is due.

For the protection of the insured, however, a number of states have passed laws requiring the insurance companies to give advance notice of the due date of premiums on certain policies.

In life insurance, failure to pay the first premium renders the agreement unenforceable unless the payment is waived. Nonpayment of subsequent premiums, however, has no effect on the validity of the contract unless the policy provides for a lapse. Statutes have been enacted defining the privileges of the insured if he desires the policy to lapse. The usual privileges, as previously explained, are as follows:

1. Cash surrender value.
2. Extended insurance for full amount of policy.
3. Paid-up insurance for less than the face of the policy.

**Nonpayment of Premiums.**—Courts generally dislike policy provisions for forfeiture of the insured's rights because of nonpayment of premiums. The courts will, nevertheless, enforce the provision when there is no alternative. Under the following conditions, however, failure to pay the required premium cannot be held to mean forfeiture of rights:

1. Waiver by the insurance company of the payment of premium at the time agreed upon.
2. Failure on the part of the insurance company to notify the insured, where the agreement or statute provides that the insured should be notified.
3. Any act on the part of the insurance company which prevents the insured from paying the premium.

In the absence of an express provision in the policy, no portion of the premium is returnable, even though the risk is terminated before the end of the period provided by the policy.

This rule does not apply, however, when the risk is terminated by a wrongful act of the company or when the law requires a return premium for termination before the end of the contract period. If the insurance company was never liable under the policy, the premium paid must be returned.

**Voiding the Agreement of the Parties.**—The agreement of the parties may be voided in case of fraud, mutual mistake, or lack of good faith between the parties.

The exercise of good faith means that each of the parties to the contract shall disclose any fact which may be material, and that every statement made shall be true. Whether the fact is material or not depends upon whether or not such knowledge would affect the making of the contract by either party. In the making of the contract, the insured must state any material fact the concealment of which would be regarded as an act of bad faith, and must also tell truthfully any fact about which inquiries have been made. Any representation which is essential to the contract may be regarded as a warranty. The concealment of any fact that should be known makes the contract voidable in the hands of the injured party. If, however, the insured makes an incomplete answer, the contract is not void unless it can be shown that the insured acted in bad faith.

As soon as the contract is completed the insured need not disclose any new facts unless such disclosure is required by the policy provisions. Furthermore, under certain circumstances there are facts which need not be disclosed at the inception of the contract. These circumstances exist when (1) the insurance company and the insured should have known the facts; (2) the insurance company can reasonably be presumed to know the facts; (3) the insurance company waives information concerning any facts about which knowledge is acquired.

**Representations and Warranties.**—A “representation” is a statement made to the insurance company as an inducement to the insurance company to issue a policy. Representations may be made prior to the issuance of the policy or at the time when the policy is issued.

A false representation made either innocently or fraudulently may, if material, void the contract. A false representation, if immaterial, in the absence of special statute has no effect on the contract. A representation dealing with future events or with anything about which accurate knowledge cannot be obtained is regarded as a matter of information.

A "warranty" is a statement made in the policy or included by means of a reference in one of the terms of the policy. Each warranty is regarded as an essential part of the contract. If the insured has made an untrue statement or if he fails to perform the warranty, the policy may be voided regardless of the question of materiality. The warranty may be either affirmative or promissory. An affirmative warranty makes a statement with regard to the facts, and this statement is accepted at the time the contract is made. In a promissory warranty the insured agrees that he will perform certain acts mentioned in the contract, or that certain conditions will exist through the life of the policy.

The differences between representation and warranty may be summarized as follows :

1. Warranties are an essential part of the contract whereas a representation is an inducement to enter into the contract.
2. Warranties must be stated in the policy or referred to by one of the terms of the policy. A representation may be oral, written in the policy, or referred to by one of the terms of the policy.
3. Warranties are presumed to be material. A representation must be proven to be material.

On account of the tendency of courts to interpret provisions of the policy as warranties, statutes have been enacted waiving this condition.

**Subrogation.**—Policies usually provide that after the payment of a loss by the insurance company, the company is entitled to subrogation of any rights that the insured may have against a third person responsible for the loss. Subrogation generally applies only to payment for loss of property and payment to the injured under liability policies if a third party is responsible for the loss. The right of subrogation is usually limited to the amount of loss and expense paid by the insurance company.

**Powers of Insurance Agents.**—The business of insurance is carried on primarily through agents. The relation between the insurance company and its agents is created and terminated in accordance with the law of agency. Certain important principles govern the law of agency. They apply to insurance as follows :

1. One person, called the agent, cannot enter into an agreement for another, called the principal, unless proof can be shown that the authority for making this agreement was given to the agent.
2. An agent has the authority to enter into an agreement of insurance if the principal has apparently given the agent the authority.
3. The insured cannot be held liable for any secret limitation placed upon the authority of the agent unless it has come to the insured's knowledge.

4. Any fraudulent act committed by the agent in the course of his employment will bind the principal, even though the act was not authorized by the principal, always provided the insured was not a party to the fraudulent act, and provided the act was within the apparent scope of the agency.
5. If the agent has knowledge of any material fact concerning the policy, this knowledge will bind the insurance company even though the fact was not communicated to his principal by the agent.
6. An agent cannot act for both the insurance company and the insured at the same time without the consent of both parties.

Like agents, executive officers and directors are subject to the general law of agency. A broker is an agent of the insured who acts on behalf of the insured to procure a policy from an insurance company. The insurance company is, therefore, generally not liable for the acts of the broker.

Under the law of agency the agent cannot delegate the powers which have been conferred upon him to any other person, that is to a subagent, unless this delegation of authority involves the performance of immaterial acts or the insurance company has expressly or impliedly given the agent authority to delegate his powers. The courts will hold that, under circumstances such as the following, the insurance company has given the agent implied authority to delegate his authority to others :

1. The act was necessary to accomplish the functioning of the agency.
2. The delegation of authority was in accordance with custom.
3. The delegation of authority was known to the insurance company.

The acts of a subagent bind the insurance company in the same manner as the acts of the agent, subject to limitations of the contract of agency between the insurance company and the agent.

Limitations placed by the insurance company upon the agent will bind the insured, provided the limitations are legal and have been properly communicated by one of the following methods :

1. Specific statement in the policy.
2. Limitations upon the agent's authority in the application for insurance.
3. Oral communication to the insured.
4. Communication by separate instrument to the insured.

If the limitations placed upon the activities of the agent are unreasonable or illegal, the limitations will be regarded as improper and of no effect on the rights of the insured.

**Reinsurance Contracts.**—The reinsurance contract is subject to the same legal interpretation as the insurance contract and to certain other

special interpretations. These special interpretations, which arise from the nature of reinsurance, may be summarized as follows :

1. The liability of the reinsurance company is measured by the liability of the ceding company.
2. The policyholder, as party to a contract with the ceding company, obtains no rights against the reinsurance company. If, however, the reinsurance company has contracted with the direct-writing company or otherwise expressly indicates its intent to pay the loss to the policyholder, he may, as third party, enforce this provision of the reinsurance contract.
3. If a settlement made by the ceding company with the policyholder imposes liability which was not assumed by the reinsurance company, the latter is released from liability.

### QUESTIONS AND PROBLEMS

1. (a) *A* had a \$50,000 fire insurance policy, and suffered a fire loss. *A*'s manager prepared a proof of loss, stating that the value of the merchandise destroyed by fire was \$4,000. An examination of the books, however, showed the value to be \$200. What was the liability of the insurance company?  
(b) *A*'s \$10,000 fire insurance policy required *A* to keep his books in an iron safe. Robbers broke into his establishment at night and set fire to the premises. Merchandise valued at \$5,000 was burned, and the books were also destroyed. What is the company's liability?  
(c) *A* sold his property to *B*, and gave *B* his fire insurance policy. The building was subsequently destroyed by fire. State the company's liability.  
(d) The *A Insurance Company* insured a picture belonging to *B* against all risks for \$5,000. The policy provided that in case of loss, the amount of the policy was to be paid. The picture was stolen from *B*'s home. *B* demanded \$5,000. The insurance company demonstrated that the actual market value of the picture at the time of the loss was \$1,000. Explain the company's liability.
2. (a) *A*, who was a bookkeeper and earned \$30 a week, obtained a \$25,000 life insurance policy. Discuss the liability of the insurance company to the beneficiary on *A*'s death.  
(b) *A* insured his building for \$50,000 and paid premiums for 20 years. Thereafter *A* sold the property, but he continued to pay the premiums. The building was damaged by fire, causing a loss of \$25,000. State the company's liability to *A*.  
(c) *A*, who was *B*'s creditor, obtained a \$1,000 policy on *B*'s life. While the policy was in force, *B* paid his debt to *A*. *A* continued

to pay premiums on the policy. When *B* died, *A* demanded the amount of the insurance. Discuss the company's liability to *A*.

3. (a) *A*, who was a minor, insured his automobile against theft. The automobile was stolen and *A* sought to recover from the insurance company. State the company's liability to *A*.
  - (b) *A* obtained a life insurance policy on January 15, 1950. On January 30, 1951, *A* died. The company denied liability because *A* had made a misstatement when the policy was issued. An examination of the policy indicated that there was no incontestability clause in the policy. Discuss the company's liability.
  - (c) The *A Insurance Company*, of Connecticut, sent a bond by mail to *B*, who lived in Oregon. *A* was not admitted to do business in Oregon. *A* demanded the premium from *B*, but when the latter refused to pay, canceled the policy. Discuss the right of the company to the earned premium.
  - (d) *A* made *B* the irrevocable beneficiary under his \$5,000 life insurance policy. As *A* was in need of money, *A* borrowed \$500 on his policy. Shortly thereafter, *A* died. Explain the rights of the beneficiary.
  - (e) *A* had a \$20,000 life insurance policy. Shortly before *A*'s death, *C*, a creditor, obtained a judgment against *A* for \$1,000. *C* attempted to collect the claim from the life insurance proceeds. Discuss the rights of *C*.
  - (f) *A* sold merchandise to *B*, who was in business in a foreign country. To protect his shipment against loss, *A* obtained a marine insurance policy. *A* drew a \$2,000 draft on *B* for the shipment, and discounted the draft with the *C Bank*, to which he assigned the marine insurance policy. Subsequently the cargo was lost on the high seas. What are the rights of *C*?
  - (g) *A* insured his building against fire for \$10,000, with loss payable to *B*, a mortgagee. The building was damaged by fire, causing a loss of \$1,000. Both *A* and *B* demanded the proceeds of the policy, the former wishing to use the money to repair the building. Discuss the rights of *A* and *B*.
4. (a) *A* requested his broker, *B*, to obtain \$5,000 worth of fire insurance covering his merchandise. *B* telephoned the *C Insurance Company* and was advised, orally, that *A*'s merchandise was insured. On the same day *A*'s merchandise was damaged by fire and the loss amounted to \$500. Describe the company's liability.
  - (b) *A* signed an application for a \$5,000 life insurance policy on January 15. In the application *A* stated that he had never been rejected for life insurance by any other company. On January 30 the policy was issued to *A*, who died on March 15. The beneficiary demanded the amount of the policy. Investigation revealed that *A* had been rejected by two other life insurance companies prior to the issuance of the policy. What are the rights of the beneficiary?

5. (a) *A* obtained a \$5,000 fire insurance policy on January 15 from the *B Insurance Company*, covering his merchandise. The policy was delivered to *B* without payment of any premium. On January 30 *B* suffered a \$1,000 fire loss. The premium for the policy had not been paid. Discuss the company's liability.
- (b) On January 15 *A* obtained a life insurance policy from the *B Company*, paying a premium of \$400. *A* died on June 15 of the same year. The company denied liability because of a misstatement made by *A* in his application. Discuss the validity of the contract.
6. (a) *B* threatened *A* that he would burn *A*'s building. Immediately thereafter, *A* requested *C*, an agent for the *D Fire Insurance Company*, to insure his building for \$10,000 against fire. *B* placed kerosene and rags in *A*'s building, ignited the rags, and caused the building to be destroyed by fire. What is the company's liability?
- (b) On January 15 *A* obtained a \$5,000 burglary insurance policy covering his merchandise. Shortly thereafter, numerous burglaries occurred in the neighborhood of *A*'s premises, of which he did not advise the company. On January 30 *A* suffered a \$1,000 burglary loss. What is the company's liability?
- (c) What is the difference between a representation and a warranty?
7. (a) *B* was appointed an agent by the *C Automobile Insurance Company*. *B* issued a 5/10 automobile bodily injury policy to *A*, who was a junk dealer. One day while *A* was driving his automobile, he injured *D*. *D* sued *A* and obtained a judgment for \$5,000. The *C Insurance Company* refused to indemnify *A*, claiming that the agent was given written instructions not to insure people engaged in the junk business. Discuss the company's liability.
- (b) *A* requested his broker, *B*, to obtain a \$5,000 fire insurance policy for his merchandise. *B* stated that he could obtain such a policy from *C*, and subsequently notified *A* that *C* had issued the policy on January 15. Five days later *A*'s merchandise was damaged by fire, causing a loss of \$1,000. It was revealed that *B* had never obtained a policy from *C*. Since he had dealt with the *C Insurance Company* for many years, however, *B* believed he could obtain such a policy. Analyze the rights of *A*.
- (c) *A* obtained a policy effective January 15, 1950, from the *B Life Insurance Company* through *Agent C*. On January 15, 1951, *A* notified *C* that he could not pay his premium. Thereupon *C* took *A*'s policy and added an endorsement providing that *A* could pay the premium within 60 days. On February 20, 1951, *A* died. Explain the rights of the beneficiary.
8. *A* purchased a \$10,000 riot and civil commotion policy from the *B Insurance Company*, which in turn obtained reinsurance for \$5,000. *A* filed a claim for \$1,000 loss from riot. The company had a valid defense and did not need to pay *A*. In order to retain *A*'s good will, however, the company settled the claim with *A* for \$500. What is the liability of the reinsurance company?

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## INDEX

- Abandonment clause, marine insurance, 393
- Abandonment form, rain insurance, 202-204
- Accident insurance:
- exclusions, 628, 634, 641
  - group, 624, 639-645
  - legal requirements for, 628-630
  - medical examination, 629-630
  - noncancellable, 624, 636-639
  - other insurance provisions of, 631
  - policies, 635-645
  - rates, 634-636, 641
  - sickness expense policy, 634
  - standard provision of, 628-631
  - underwriting problems, 636
- Accident plus reimbursement coverage, 623
- Accident prevention, agencies for, 668-669
- Accidental death benefit, 45, 47-48
- Accidents:
- automobile, 21
  - aviation coverage, 623
  - cause of, 651
  - consequence of, 651
  - coverage plus reimbursement, 623
  - death and dismemberment coverage, 623-624, 631-632
  - prevention of, 13
  - risk of, 3
- Accountants:
- endorsements, 532
  - liability policy, 529, 531-532
- Accounts, exclusion of, 85, 166, 171
- Accounts receivable insurance:
- adjustment of loss, 268-269
  - exclusions, 267
  - fraudulent assigned, 358-361
  - policy, 264, 267-269
- Accumulation of dollar, 65-67
- Accumulative deductible clause, twenty-five per cent, 216
- Acid and chemical damage endorsement, 232
- Acquisition cost, 7
- Acquisition of business, state regulation of, 726, 729-730
- ACR credit insurance:
- policy, 302, 311-312
  - rates, 314
- Actual value policy, automobile fire insurance, 553
- Actuarial committee, New York Compensation Insurance Rating Board, 693
- Actuarial department, insurance company, 698-699
- Additional insurance (*See Other insurance*)
- Additional interest clause:
- automobile liability, 546
  - steam boiler insurance, 181, 184, 185
- Additional living expense form, 132
- Additional named person endorsement, 423, 425
- Address, applicant's, 48
- Adjuster, fire insurance, 89
- Adjustment:
- credit insurance premium, 314
  - marine insurance claim, 393
  - of claims rider, interim, 312
- Administration expense, 69
- Adverse:
- loss ratio, 142
  - selection, 27, 33
- Adverse legislation, prevention of, 686
- Advertisers' liability policy:
- endorsements, 530-531
  - limit of liability, 529
- Advertising department, 698, 700
- Advertising space form, rain insurance, 202, 207-208
- Aeronautics (*See Aviation*)
- Age:
- insured's, 31, 71
  - life rates based on, 6
  - misstatement of insured's, 45
- Agency:
- department, 698
  - direct reporting, 701
  - systems, 701
- Agents:
- commission, 69
  - forbidden acts of, 45
  - functions of, 700-701
  - general, 701
  - knowledge imputed to company, 92
  - licensing of, 727, 730
  - life insurance, 49
  - miscellaneous provisions, 703-704
  - powers of, 742-743
  - regulation of, 702
  - special, 701-702
- Agreed amount clause, 129
- Agriculture and Markets Law, 352
- Air conditioning coverage, 165
- Air-meet coverage, 615
- Air passenger injuries:
- indemnity for, 627
- Aircraft:
- cameras, endorsement, 431
  - coverage, 107, 602-607

- Aircraft (*Continued*)  
 coverage of passengers in licensed, 46,  
 608, 611, 615-616, 627  
 damage exclusions, 109, 163-164  
 exclusions, 109, 610-611  
 hull coverage, 602-607  
 liability policy, 608-613  
 liability reporting form, 612-613  
 nonownership liability, 612  
 obsolete and low-valued, 606  
 shipments, 375-376
- Airlines, military, 616
- Airport liability policy, 613-615
- Airworthiness certificate, 616
- Alarm system:  
 automobile, 414  
 burglar, 6
- Alien insurance companies, business of, 9
- All risk clause, marine insurance, 382-  
 383
- All risk hull policies, aviation, 602-607
- All risk insurance policies, 9, 240, 264-275,  
 602-607
- Alterations:  
 exclusion of plumbing system, 166  
 installation permit, 498-501  
 major sprinkler system, 164  
 permit for ordinary repairs and, 103,  
 498  
 policy, 45, 629
- American:  
 Experience Table, 63-64  
 Museum of Safety, 668  
 Society of Safety Engineers, 668
- Amortization of bond investments, 721-  
 723
- Amount of one dollar, table showing, 65-  
 67
- Analytical schedule, rate determination by,  
 140
- Annual guarantee bonds, types of, 350
- Annuities:  
 cash refund, 55-56, 58  
 considerations when purchasing, 57-58  
 deferred, 55, 62  
 deferred refund life, 55-58  
 group, 60-62  
 group through group permanent form,  
 61-62  
 immediate, 55  
 individual income endowment, 61-62  
 installment refund, 58  
 joint and survivorship, 55-57  
 life, 55, 60  
 rates, 60, 62  
 refund life, 55-58  
 retirement, 55, 56  
 self-administered, 62-63  
 single premium life, 57  
 survivorship, 55-58  
 types of, 61-63  
 with guaranteed payments, 56
- Ante-dating rider, 312-313
- Appeal bond, 357-358
- Appliances, rate reduction for fire, 138,  
 141
- Applicant:  
 address of, 48  
 date of birth of, 48
- Application:  
 automobile damage insurance, 557  
 aviation hull coverage, 608-609  
 hail insurance, 213-216  
 insurance, 48-49  
 pending, 48  
 personal accident insurance, 615-618
- Apportionment provision, title insurance,  
 295
- Appraisals:  
 fire insurance, 89-90  
 title insurance, 294
- Appraisers, duties of fire insurance,  
 89-90
- Approval, certificate of, 311
- Arbitrators, valuation by, 294
- Arrest bond, order of, 357
- Arson:  
 campaigns against, 138, 687  
 Committee of Fire Underwriters, 686-  
 688  
 investigation of, 137  
 model law, 687
- Art galleries, coverage of, 427
- Art glass, 231
- Articles of incorporation, insurance com-  
 pany, 696-697
- Arts floater, fine, 421, 426-427
- Asphyxiation, 625
- Assessment insurance, 72-73
- Assigned accounts receivable, fraudulent,  
 358-361
- Assigned risk rating plan, 586-590, 668
- appeal, right of, 590  
 cancellations, 589-590  
 disabilities, 588  
 financial responsibility, 589  
 good faith, 587-588  
 increased premium charge, 589  
 re-eligibility of rejected applicants, 589
- Assignee, rights of, 737-738
- Assignment:  
 automobile liability policy, 551  
 before loss, 87  
 life insurance policy, 19  
 mortgage, 95  
 notice of, 45  
 of policy, 4, 11, 45  
 under voluntary compensation endorse-  
 ment, 666-667
- Associations:  
 fire prevention, 136, 138  
 underwriters', 683-693
- Assumed liability:  
 sprinkler leakage, 164  
 workmen's compensation, 663
- Auction rooms, dealers', 427
- Auctioneers' bond, New York City, 351,  
 353-354

- Auto trailer, trailer home endorsement, 424
- Automatic coverage:  
 automobile liability policy, 546  
 automobiles, fleets of, 557-558, 573-577  
 fire insurance, 96-97, 133, 136  
 position schedule bond, 328  
 steam boiler insurance, 181-182  
 temporary fire insurance, 95, 97
- Automatic premium loan, 31, 33
- Automatic reinstatement, automobile damage, 557
- Automatic sprinkler system:  
 care and maintenance, 163  
 damage to, 162  
 exclusion of, 163  
 major alterations and repairs to, 163  
 rate reduction for, 111
- Automatic sprinklers:  
 endorsement to fire policy, 98, 111  
 operation of, 137
- Automatic treaty reinsurance, 710
- Automobile:  
 accident policy, 624, 635-636  
 accidents, 21  
 hazards, 543-544  
 property damage, 3  
 theft bureaus, 691-692
- Automobile bodily injury and property damage liability policy:  
 assignment of, 551  
 provisions of, 544, 549-552, 569  
 rates, 566-567
- Automobile collision or upset insurance:  
 convertible collision, 555  
 deductible clause, 554  
 expense reimbursement, 556  
 general average and salvage charges, 556  
 principles of, 6-7, 10  
 protection by, 552-558  
 rates, 572-573
- Automobile committees, regional, 690-691
- Automobile comprehensive policy:  
 coverage of, 552-554  
 rates, 572-573
- Automobile dealers:  
 bodily injury and property damage forms, 571  
 coverage, 559-566  
 damage, endorsement, 562-563  
 declarations, 562  
 exclusions, 560-562  
 open lot storage, theft endorsement, 565  
 open policy, 563-565  
 open policy, passbook or certificate form, 565-566  
 policy, blanket, 565
- Automobile endorsement, unattended, 424, 429-430
- Automobile fire insurance policy:  
 actual value, 553  
 rates, 573  
 stated amount, 553-554
- Automobile fire insurance policy (*Continued*)  
 types of, 552-554  
 Underwriters' laboratories, 591
- Automobile fleet plan, 557-558, 573-577
- Automobile insurance:  
 application, 557, 562  
 automobiles newly acquired, 546  
 compulsory, 582-590  
 endorsements, 562, 565-566, 579  
 exclusions, 547-548, 555-556, 558-561  
 financial responsibility law, 549  
 miscellaneous provisions, 549-552  
 nonowned, 546-547, 577-578  
 principles of, 543-591  
 rates, 566-581  
 regional committees, 690-691  
 safety education, 590-591  
 special combined additional coverage, 566  
 statutory, 581  
 suspension of use provision, 581  
 Underwriters' Association, 686, 690-691  
 without ownership of any automobile, 578
- Automobile Manufacturers' Association, 691
- Automobile property damage insurance:  
 liability, 544 552  
 principles of, 9
- Automobile public liability insurance, compulsory, 13
- Automobile service stations, coverage of, 559-566
- Automobile theft insurance:  
 endorsement, 565  
 methods to reduce losses, 591  
 policy, 552-553, 556, 558-559  
 rates, 573
- Automobile Underwriters' Association, National, 686, 690-691
- Average:  
 clause in marine insurance, 383, 386  
 irrespective of percentage clause, 386  
 law of, 5
- Aviation:  
 injuries excluded, 46, 606, 608, 610-611  
 legislation, 602
- Aviation insurance:  
 admitted liability endorsement, 611-612, 618  
 blanket accident, 617-618  
 endorsements, 606, 611-612  
 fire rates, 602-603  
 flying hour rates, 618  
 group accident, 602, 611, 617-618  
 hull rates, 602-607  
 industrial aid plans, 615  
 lay-up provision, 612  
 personal accident insurance, 615-618  
 principles of, 602-622  
 property damage, 608-613  
 public liability, 608-613  
 rates, 604-606, 618

- Awards, workmen's compensation, 655-656  
 Awnings, coverage of, 103
- Bacterial infections, exclusion of, 47  
 Bad debt losses, allowance for, 268  
 Bail bond, 357  
 Bailee's customers' floaters, 446  
 Bandit-resisting enclosure, discount for, 261  
 Bank burglary and robbery insurance:  
   exclusions, 256-257  
   premium reductions, 257  
   principles of, 241, 255-257  
   rates, 257  
 Bank loans, insurance as collateral for, 31  
 Bank risks, aviation, 606-607  
 Bankers' blanket bonds, 321, 336-339  
   exclusions, 338-339  
   provisions of, 336-339  
 Bankruptcy Act, National, 298  
 Bankruptcy clause, 4, 12  
 Barratry, 378  
 Bathroom, license bond for, 354  
 Beauty shop malpractice, liability policy, 526-528
- Beneficiaries:  
   change of, 33, 49  
   contingent, 33  
   education of, 39  
   insurance as guardian of, 21  
   name of, 33  
   payment of specified installments to, 39  
   rights of, 737
- Benefits:  
   collateral, 308  
   disability, 45-47
- Bills of lading:  
   latent defects clause, 388-389  
   negligence defect in, 388-389  
   use of, 19
- Binder, provisions of, 95
- Birthday:  
   applicant's, 47  
   proof of, 47
- Blanket bonds:  
   bankers', 321, 336-339  
   brokers', 321, 336-339  
   penalty, 331  
   premiums, 331  
   primary commercial, 329-330
- Blanket fidelity bonds, 321, 329-330
- Blanket group insurance, steam boiler, 181-183
- Blanket policy:  
   automobile dealers', 565  
   aviation, 617-618  
   marine insurance, 372-373  
   safe-deposit, 264, 274-275
- Blanket position bond:  
   excess indemnity endorsement of, 331  
   provisions of, 329-332  
   salvage under, 330
- Blasting damage exclusions, 163, 166
- Blood poisoning, 625
- Blue Cross Plan:  
   exclusions, 645  
   limitations, 644-645  
   provisions of, 624, 642-645
- Board of directors, insurance company, 697
- Board of Fire Underwriters, National, 138, 686-687
- Boats, insurance of, 438
- Bodily infirmity (*See* Disease)
- Bodily injury:  
   insurance rates, automobile, 544, 566  
   of factory worker, 21
- Bodily injury liability policy:  
   additional interest clause, 546  
   automatic coverage, 546  
   automobile, 544-552, 590
- Boiler insurance policy, steam, 186-187
- Boilers:  
   cast iron, 186  
   coverage of, 186-187
- Bonded warehouses, coverage of, 116-117
- Bonding company (*See* Surety company)
- Bonds:  
   amortization of, 721-723  
   annual guarantee, 350  
   appeal, 357-358  
   as investments, 719  
   auctioneers', 351, 353-354  
   bail, 357  
   bankers' blanket, 321, 336-339  
   blanket fidelity, 321, 329-332  
   blanket position, 329-332  
   brokers' blanket, 321, 336-339  
   commission merchants', 352-353  
   completion, 344, 348  
   construction, 344-348  
   contract, 321, 344-350  
   court fiduciary, 355  
   court guarantee, 356-357  
   crime protective 343-344  
   depositors' and commercial forgery, 321, 333-336  
   destroyed instruments, 351  
   federal officials', 354  
   federal payment construction, 345-346  
   federal performance, construction, or supply, 345  
   fidelity, 9, 320-370  
   fidelity *versus* surety, 321  
   fiduciary, 321  
   fraud, 340-343  
   government, 22, 718  
   individual fidelity, 323-324  
   license, 323, 351-354  
   local license and permit, 353-354  
   lost instruments, 351  
   municipal, 718  
   name schedule, 325-327  
   order of arrest, 357  
   permit, 351-353  
   petitioning creditors', 357  
   plumbers', 351, 353  
   position fidelity, 327-329

**Bonds (Continued)**

- primary commercial blanket, 323, 329-330
- proposal, 346
- public official, 323, 354
- security for costs, 357
- sheriff's indemnity, 352-358
- single merchant's protective, 341-343
- stipulation for value, 357
- supply, 345
- surety, 9, 320-361
- tax collectors', 354
- temporary importation, 351-352
- to discharge mechanic's lien, 358
- treasurers', 354

Borrowing power, insurance aid to, 18

"Both to blame" collision clause, 389

**Branch office:**

- expense, 69
- system, 701

Brand and label clause, 104

Breakage endorsement, inland marine insurance, 427

Breeders' policy, livestock insurance, 225, 227

**Bridge builder's risk policy:**

- coverage, 464
- perils excluded, 464
- policies, 439, 464
- special agreements, 464

Bridge property damage form, 439, 465-466

**Bridge use and occupancy insurance:**

- adjusted values endorsement, 468
- coinsurance endorsement, 468
- monthly per diem endorsements, 467
- provisions, 439, 466-468

**Brokers:**

- blanket bonds, 321, 336-339
- licensing of, 727, 730
- miscellaneous provisions, 703-704
- regulation of, 702
- work of, 702

Builders' fire risk form, 98, 112

completed value, 112-113

Builders' risk policy, marine insurance, 394

**Building:**

- codes, 138-139
- collapse of, 627
- Committee on Construction, 687
- defective construction, 141-143
- exceptional construction, 141
- exposure, 141-143
- fire appliances in, 141
- fire insurance form, 102-106
- fireproof construction, 143
- in construction exclusion, 165-166
- management, 141-143
- materials kept in, 141-142
- nonfireproof mercantile, 139, 143
- ownership waiver, 92
- special considerations, 142-143
- standard, 140

**Building (Continued)**

- unoccupied, 97, 110, 163
- work performed in, 141

Bulk schedules, 427, 430

Bullion, exclusion of, 85

Bureau of Casualty and Surety Underwriters, National, 686, 688-689

Bureaus, fire insurance, 97-98, 111

Burglar alarm system, rate reduction for, 6

Burglary insurance (*See also* Theft):

- bank, 240, 255-257
- endorsement, 250
- exclusions, 109, 166, 243, 247, 253, 256, 258, 263-264, 270-271
- mercantile, 6
- mercantile open stock, 239, 246-253
- mercantile safe, 239, 253-255
- minimum premiums, 255
- office, 240, 264
- rates, 245-246, 251-255, 257, 260-263
- residence theft and away from premises theft, 239-246
- storekeepers', 240, 262-267

Burglary losses, 3

Burial expenses, 24

**Business:**

- insurance, 18-19
- interruption insurance, 98, 126-131, 191
- needs of, 25-26

Business address, applicant's, 48

Business cycle, investments and, 718

Business failures, volume of, 298

Buses, coverage of, 567

**Camera form (world-wide):**

- aircraft exclusion, endorsement, 431
- coverage, 421, 430-431
- infidelity exclusion, endorsement, 431
- new acquisition endorsement, 431
- property of others, endorsement, 431

Campaigns, fire prevention, 138-139

Canadian Department of Customs, 691

**Cancellation:**

- by insured, 12
- by insurer, 12
- fire insurance, 84, 92-94
- policy, 3
- prohibited policy, 98, 121-122
- right of, 4, 12

Capital wealth, conservation of, 139

Capsules, 390

Carelessness, elimination of, 139

**Cargo insurance:**

- marine, 371
- rates for, 395

Carrier, 677-683

and other bailee liability, 388

services of, 659

**Cash:**

- dividends, 38
- refund annuity rates, 60
- surrender value, 32-33
- use of, 18

Cast iron boilers, 186

- Casualty and Surety Underwriters, National Bureau of, 686, 688-689
- Casualty insurance:  
 mutuals, 678  
 underwriting, 9
- Central Information Bureau, automobile insurance companies, 59
- Central organization, insurance, 48
- Certainty, element of, 17-18
- Certificates:  
 inland marine insurance, 411-412  
 marine insurance, 19, 373  
 medical examination, 32  
 of approval, 311
- CF credit insurance policy, 302-308
- Chain stores:  
 automatic coverage for, 97  
 multiple location coverage for, 98, 133-134
- Charity funds, contributions to, 25-26
- Chattel mortgage, exclusion of property encumbered by, 167
- Checking facility operator, license bond, 354
- Checks:  
 coverage of incoming, 342  
 incoming, 344
- Chemical damage endorsement, acid and, 232
- Children, education of, 24
- Chiropody, 527
- City governments, fire protection by, 136-137
- Civil Aeronautics Administration, 606, 611
- Civil authorities, destruction by, 163, 166
- Civil commotion:  
 clause, 172, 380  
 damage exclusions, 163, 166, 380  
 endorsement, 353  
 exclusions, 88  
 insurance cancellation, 172  
 need for, 171  
 principles of, 171-176  
 theft coverage, 171
- Civil war, damage exclusions, 109, 163, 166
- Claims:  
 adjustment of marine insurance, 393, 398  
 committee, 693  
 credit insurance, 304-308  
 incidence of title insurance, 292-293  
 investigation of, 7  
 notice of, 46  
 payment of, 630  
 petty, 6
- Claims rider, interim adjustment of, 312
- Clamped glass, 231
- Class rates, modification of, 6
- Clause:  
 bankruptcy, 4, 12  
 clear space, 110  
 coinsurance, 467  
 collision, marine insurance, 389, 397, 554  
 deductible, 4, 6-7, 554
- Clause (*Continued*)  
 fire insurance, 97-114  
 partial limitation, 438  
 Cleaners' and dyers' form, 439, 448  
 Clock and watchman, rate reduction for, 98, 112
- Codes:  
 building, 138  
 municipal building, 136
- Coins, insuring, 5
- Coinsurance clause:  
 fire insurance, 98-100  
 hail insurance, 217-218  
 inland marine insurance, 467  
 mercantile open-stock, 247-248  
 motor truck shipper's policy, 407, 412-414  
 title insurance, 304
- Coinsurance floater, nonreporting, 133, 136
- Collateral:  
 loans, 719  
 policy as, 31  
 required by surety companies, 321
- Collector of Customs, 117
- Collectors' bond, tax, 354
- Collision insurance:  
 automobile (*See* Automobile collision insurance)  
 convertible, 555  
 elevator, 507  
 Combustion, spontaneous, 138
- Commercial automobiles:  
 classification, 566  
 rates, 569-571
- Commercial blanket bond, primary, 329-330
- Commercial forgery bond, depositors' and, 333-336
- Commission merchants' bonds, State license bonds, 352-353
- Commissioner, insurance, 726-727
- Commissions:  
 justification of, 8  
 policy covering profits and, 119, 122-124  
 requirement for uniform, 686
- Committee:  
 actuarial, 693  
 classification and rating, 692  
 Construction of Buildings, 687  
 Fire Prevention and Engineering Standards, 687  
 Fire Underwriters' Adjustments, 687  
 medical and claims, 693  
 payroll audit, 693  
 safety engineering, 692-693
- Common disaster clause, 32
- Common stock:  
 investment in, 718-719, 723  
 prohibition of investment in, 718
- Compensation Acts, types of, 652-653
- Compensation endorsement, voluntary, 661, 666-667

- Compensation insurance** (*See also* Workmen's compensation insurance):  
 National Council on, 686, 688-689, 693  
 New York Rating Board for, 663, 686-687
- Completion bond, 344, 348
- Compound interest table, accumulation, 66
- Comprehensive dishonesty, disappearance, and destruction policy (31), 336
- Comprehensive general liability policy: coverage, 486, 514-519  
 exclusions, 514-515
- Comprehensive glass insurance, 231-238
- Comprehensive personal liability policy: coverage, 486, 519-523  
 exclusions, 521-522  
 special provisions, 522-523
- Comprehensive policy:  
 automobile, 552-554  
 rates, 572-573
- Compressors, coverage of, 190-191
- Comptroller's department, 699
- Compulsory:  
 automobile insurance, 582-590  
 compensation laws, 652  
 insurance, 4, 13
- Conditional bill of sale, 104
- Conditions, exclusion of changed, 86-87
- Consequential:  
 damage coverage, 440  
 loss and damage, 121
- Consequential damage insurance, boiler and machinery, 191, 194-195
- Conservation:  
 of life, 20-21  
 of property, 20
- Consideration, money, 4
- Consideration for insurance contract, 739-740
- Consignee, coverage of, 122-123
- Consignee bond, 332-333
- Construction:  
 fireproof building, 137  
 rate for exceptional, 141
- Construction bond:  
 federal, 345  
 federal payment, 345-346
- Construed date of shipment rider, 312
- Contents rate, fire insurance, 142-143
- Contingent beneficiary, 32
- Contingent business interruption insurance, 98, 130
- Contract, 732-746  
 alternatives of life insurance, 17  
 bond, 344-346  
 insurance, 4, 5, 12
- Contract bonds, types of, 321, 344-350  
 for private individuals or concerns, 346-350  
 underwriting considerations for, 348-350
- Contractors:  
 compensation coverage of, 661  
 equipment floater, 439, 459-460
- Contractors (*Continued*)  
 liability policy, 486-501  
 protective policy, 486, 503
- Contributing insurance clause, 134
- Contribution:  
 clause, 4, 11-12  
 insurance company, 90-91  
 marine insurance, 391-392  
 mortgagee clause, full, 98
- Control:  
 federal, 4, 9-10  
 state, 4, 9-10
- Conversion, life insurance, 26-27
- Convertible:  
 collision form, 555  
 term premiums, 27-31
- Cooling apparatus losses, 119-120
- Corporate bonding, 320-321
- Corporate surety companies, 320-321
- Corporation insurance, 19, 25
- Cost:  
 acquisition, 7  
 construction, increased, 98, 111-114  
 doctor's, 24-25  
 estate administration, 24-25  
 inspection, 7  
 insurance, 7, 31  
 investigation, 8  
 nurses', 24-25  
 operating, 726, 728-729  
 term policy, 26, 27
- Costs bond, security for, 357
- Council on Compensation Insurance, National, 686, 688-689, 693
- Counterfeit paper money, coverage of, 342, 344
- Court fiduciary bonds, 355
- Court guarantee bonds, 356-357
- Cows, insurance of, 221, 225-227
- CR credit insurance:  
 policy, 302, 309-310  
 rates, 313-314
- Crash coverage:  
 aviation, 602, 605  
 exclusions, 610-611  
 rates for, 618
- Credit insurance:  
 ACR form, 302, 311  
 CF form, 302-308  
 CR form, 302, 309-310  
 development of, 298  
 endorsements, 312-313  
 exclusions, 304, 310  
 experience rating, 300-302  
 forms, 302-312  
 H form, 302, 309  
 ID form, 302, 310  
 I form, 302, 309  
 LF form, 302, 309  
 method of writing, 298-302  
 N policy, 302, 308  
 normal loss, 301-302  
 premium adjustments, 313-314  
 principles of, 18-19, 298-314

- Credit insurance (*Continued*)  
 rates, 313-314  
 reasons for, 298  
 underwriting, 314  
 XS form, 302, 310-311
- Credit losses, volume of, 298
- Credit ratings, Dun & Bradstreet, 299-300
- Creditors' bond, petitioning, 357
- Crime protective bond:  
 provisions of, 341, 343-344  
 reward clause, 344
- Criminal barratry, 398
- Crop insurance (*See* Hail insurance)
- Cumulation of shipments, 388
- Curios, insuring, 5
- Currency, exclusion of, 85, 166, 171
- Custodians, 257, 258, 260
- Custom House bonds, 351-352
- Customs duties:  
 application for abatement of, 116-117  
 fire insurance form, 98, 116-119
- Cyclone:  
 coverage, 602, 626  
 exclusions, 163, 166
- Damage (*See* Loss)
- Date of shipment rider, construed, 312
- Dealer's auction rooms, 427
- Death:  
 and dismemberment coverage, 623-626, 631-632  
 expenses, 24  
 premature, 19  
 proof of, 47  
 risk of, 3
- Debris, removal of, 420
- Debtor rider, extraordinary, 313
- Deductible clause, 6-7, 168  
 collision, 554  
 fire insurance, 106  
 hail insurance, 216-217  
 livestock insurance, 225-226  
 marine insurance, 386-387  
 personal effects floater, 438
- Deductible liability policies:  
 automobile insurance, 545  
 boiler insurance, 181, 183
- Defective construction, rate for, 141
- Defective title, causes of, 289
- Defects, exclusion of subsequent title, 289
- Deferred:  
 annuities (*See* Annuities)  
 loss, payment clause, 130
- Delay damage exclusions, 109
- Delayed delivery clause, 383
- Delivery flights, aviation, 606, 612
- Demolition clause, fire insurance, 116
- Dentists' liability policy, 524-525
- Department organization, insurance company:  
 actuarial, 698-699  
 advertising, 698  
 agency, 698  
 Department organization, insurance company (*Continued*)  
 comptroller's, 698-699  
 educational, 698  
 inspection, 698  
 legal, 698-699  
 loss, 698-699  
 mailing, 698  
 policy loan, 698, 700  
 publicity, 698  
 real estate loan, 698, 700  
 registrar's, 698-699  
 statistical, 698-700  
 supply, 698  
 treasurer's, 698-699  
 underwriting, 698
- Dependency, elimination of, 21
- Dependents:  
 inexperience of, 39  
 protection of, 19, 21, 28
- Depositors' and commercial forgery bond:  
 commercial section of, 334-335  
 depositors' section of, 333-334  
 endorsements, 335  
 exclusions, 335  
 provisions of, 333-336  
 salvage provision, 335-336
- Depreciation, 98, 109, 113
- Destroyed instruments bond, 351
- Destruction by civil authorities, 163-166
- Destruction policy, records, 264, 269-270
- Deterioration damage exclusions, 109, 163
- Deviation of voyage clause, 387-388
- Direct reporting agency, 701
- Directors, board of, 697
- Disability, 588, 641, 672  
 partial, 623, 625, 654  
 total, 53, 623, 625, 632, 654
- Disappearance, 604, 617, 628
- Discounts (*See* Rates, reduction in)
- Discrimination, elimination of rate, 144
- Disease:  
 occupational, 655  
 pre-existing, 655  
 standard endorsement, 663
- Dismemberment coverage, death and, 623-626, 631-632
- Diversification, investment, 720
- Dividends:  
 accumulation with interest, 38, 40  
 cash, 38  
 insurance paid up by, 38  
 options, 34-44  
 premiums reduced by, 38
- Divisible contract clause, 110
- Division of Standards and Purchase, New York Executive Department, 350
- Doctors' fees, 24
- Double indemnity:  
 accident insurance, 623, 626-627  
 benefits, 47-48
- Drive-other-cars endorsement, 577-578
- Druggists' special liability policy, 526

- Dun & Bradstreet, Inc., capital and credit ratings, 299-300**
- Duplicate coverage, 453
- Dwelling form:  
dwelling and contents form, 97, 105  
fire insurance, 97  
furnishings, 104
- Earnings basis, automobile insurance, 375-376
- Earthquake:  
damage coverage, 173-175  
damage exclusions, 163, 166, 173-175
- Earthquake insurance:  
conditional coverage, 174  
coverage, 173  
endorsement, 175  
fire loss, 174  
forms and clauses, 174  
hazards not covered, 173-174  
policy, 173-175  
rates, 174-175
- Education:  
children's, 24  
department, 698  
furtherance of, 21
- Elective indemnities, 625-626
- Electrical appliances, 574
- Elevator:  
collision insurance, 507  
exclusions, 506-507  
inspection, 506  
liability policy, 486, 505-508  
rates, 508
- Elevator tanks, coverage of, 165
- Embezzlement, single fraud bond coverage of, 341, 344
- Employee:  
rejections by surety, 323  
surety company's investigation of, 322
- Employer:  
accident prevention by, 13  
compensation coverage of, 662, 669  
definition of, 654  
surety company's investigation of, 322-323  
terminating insurance, 53
- Employers' liability insurance, standard policy, 658-661
- Employers' liability law, 651-652, 665
- Employers' nonownership liability policy, 579-581
- Employment agency, license bond, 354
- Endowment insurance, 28, 66  
dividend options, 38  
nonforfeiture values, 34, 35-37
- Enemy attack, exclusion, 88, 109, 163
- Errors and omissions forms, fire insurance, 98, 117, 118
- Estate tax, Federal, 75
- Excess clause, 135
- Excess cover treaties, 709
- Excess indemnity endorsement, 331-332
- Excess limits, steam boiler insurance, 181, 185
- Excess medical endorsement, 665-666
- Excess policy, 11-12
- Expenses:  
accident insurance, 627  
extra, 98
- Experience rating:  
automobile insurance, 576, 591  
rules, 669-671
- Explosion clause, 107, 382
- Explosion insurance, 171-176, 181, 183
- Export bonds, federal, 352
- Extra-hazardous risks, aviation, 606, 612
- Factory fire insurance mutuals, 678
- Family insurance, 29-30
- Farmers:  
comprehensive personal liability policy, 523a  
livestock insurance, 221-230, 462c  
mobile agricultural machinery and equipment floater, 463
- Federal:  
control, 4, 9-10  
Estate Tax, 74, 75  
export bonds, 352  
gift tax, 74, 76  
immigrant bonds, 352  
Income Tax Law, 74-75  
Internal Revenue bonds, 352  
legislation, stolen automobiles, 591  
Longshoremen's and Harbor Workers' Compensation Act, 398  
officials' bonds, 354  
payment construction bond, 345-346  
performance construction or supply bond, 345  
permit bond, 351-352  
Social Security Act, 21, 58-59  
taxation, effect on premiums and life insurance proceeds, 74-75
- Fees:  
doctors', 24  
nurses', 24  
payable after loss, 102
- Fidelity bonds:  
blanket, 329-330  
blanket position bond, 323, 330-332  
classification of, 9, 320-370  
individual, 323-325  
name schedule, 323, 325-327  
position, 323, 329-329  
primary commercial blanket, 323, 329-330  
restricted, 327  
salvage provision in, 324-325  
surety *versus*, 321  
types of, 325
- Fiduciary bonds, court, 321
- Finance company risks, aviation, 606-607
- Fine arts, valued form for, 96
- Fine arts floater, 421, 426-427

- Fire:**  
 appliances, 138, 143  
 clause in leases, 121-122  
 damage exclusions, 163-166, 225  
 exposure to, 137-138  
 losses, 162  
 marshal, 137  
 pails, 138  
 prevention, 136-138  
 prevention association, 138  
 prevention campaigns, 138-139  
 Prevention Week, 138  
 reduction by individual, 137-138  
 regulations, 138  
 risk, 3
- Fire departments:**  
 accessibility to, 143  
 paid, 137
- Fire insurance:**  
 adjustment of losses, 84, 88-90  
 automatic coverage, 97  
 blanket policy, 96-97  
 builder's risk form, 98  
 building form, 97, 102  
 business interruption, 126-130  
 cancellation of, 84, 92-94  
 charging for protection, 97, 107  
 claim payments, 90  
 clear space, 97  
 coinsurance clause, 97-100  
 contribution clause, 90-91  
 credit aided by, 18-19  
 demolition clause, 98  
 divisible contract, 97  
 dwelling and contents form, 97  
 dwelling form, 97  
 endorsements, 85, 97-114  
 exclusion of changed conditions, 86-87  
 extended coverage endorsement, 97  
 fair rates for, 144  
 floater, 96  
 inventory, 97  
 iron safe, 97  
 minimum rates, 139-140  
 motion picture permission, 97  
 origin of standard policy, 84  
 principles of, 84-144  
 profits and commissions form, 122-124  
 property description in, 84-86  
 prorata distribution, 97  
 prorata reduction of amount of, 93, 95  
 rate reduction, 139  
 rates, 139  
 rights of insured under, 84-85  
 risks assumed under, 84, 86-88  
 schedule policy, 96  
 short rates, 92-95  
 special policies, 96-97  
 specific rates, 139-140  
 suits in, 90  
 valued policy, 96
- Fire insurance mutuals:**  
 factory, 678  
 local, 678
- Fire Underwriters, National Board of,**  
 138, 686-687
- Fireproof:**  
 manufacturing schedule, 143  
 mercantile schedule, 143  
 safe endorsement, 430
- First-line reinsurance,** 710
- Fixtures, form, stock and,** 97
- Fleet coverage, automobile,** 557-558, 573-577
- Floater:**  
 covering personal property, 407, 421-438  
 covering property and commercial enterprises, 407, 439-467  
 fire insurance, 96  
 transportation, 407-421
- Flood, damage exclusions,** 166
- Floor plan floater,** 455, 457
- Flywheel, exclusion,** 109, 163, 166
- Foaling policy, thirty-day,** 225, 227
- Foreign insurance company,** 735
- Forgery bonds,** 321, 333-336
- Forms, standard, Inter-state Underwriters Board,** 136
- Foundations,** 102
- Fraud bonds, types of,** 340-343
- Fraudulent assigned accounts receivable,** 358-361
- Freezing,** 625
- Full preliminary term plan,** 69-70
- Full reporting clause,** 135
- Fur certificate, personal,** 453
- Fur farm insurance,** 227-228
- Fur floater:**  
 jewelry, 425  
 world-wide, 424
- Furrier's customers' floater,** 439, 449-454
- legal liability endorsement,** 452
- Gambling,** 4-5
- Garage keeper's legal liability policy,** 558, 559, 573
- Garage payroll policy:**  
 endorsements, 440  
 rates, 572
- Garment contractor's floater:**  
 endorsements, 440  
 provisions of, 439-440
- Garment manufacturing endorsement,** 119
- Gas, damage exclusions,** 166
- General:**  
 average loss, marine insurance, 390-391  
 requirements, 391-392
- Glass insurance, comprehensive:**  
 all glass of type described endorsement, 234  
 coverage of plate, 232  
 cracked glass endorsement, 235  
 damage exclusions, 109, 235  
 description endorsement, 234-235  
 description of insured, 233  
 large plate endorsement, 234  
 neon sign endorsement, 235  
 residence glass endorsement, 234

- Glass insurance, comprehensive (*Continued*)  
 rotogravure screens, halftone screens, and lenses endorsement, 235  
 stained glass endorsement, 235  
 types insured, 231
- Goods on deck clause, marine insurance, 386
- Government bonds:  
 foreign, 718  
 investment in, 22, 717-718
- Grace period, 33
- Grain elevator bonds, 353
- Group:  
 accident and health insurance, 624, 640-641  
 aviation accident insurance, 602, 617-618  
 exclusions, 641  
 hospitalization policy, the Blue Cross Plan, 641-645  
 life insurance, 52-54
- Guarantee:  
 bonds, 348, 350  
 court bonds, 356-357
- Guard, definition of, 257-258
- Gun floater, 421, 432-433
- Hail, coverage, 107
- Hail insurance:  
 adjustments, 217-218  
 application, 213-216  
 coinsurance in, 217-218  
 coverage, 213-218  
 deductible clauses, 216-217  
 minimum loss clauses, 216-217  
 need for, 213  
 rates, 217  
 state funds for, 681
- Hangar keeper's legal liability policy, 602, 607
- Hazards:  
 analysis of, 517-519  
 contractual, 519
- Health:  
 confinement policy, 624, 632, 634  
 nonconfinement policy, 623, 632, 633
- Health insurance:  
 group, 639-641  
 noncancellable, 624, 636-639
- Herd insurance, 225-226
- High seas, laws of, 390
- Hired automobiles:  
 coverage, 578-579  
 specified car form, 578-579
- Home address, applicant's, 48
- Horse and wagon floater, 439, 462-463
- Hospitalization:  
 coverage, 525-526, 623, 632, 634  
 group policy, 54, 624, 641-645
- Household furniture, form, 97, 105
- Hull coverage:  
 aircraft, 602-607  
 exclusions, 606
- Hull coverage (*Continued*)  
 rates, 602-607  
 reporting form, 607
- Hull policy:  
 marine insurance, 394  
 rates for, 395
- Hurricane, damage exclusions, 163
- Hydrophobia, 625
- ID credit insurance, policy, 302, 310
- Identification indemnity, 623, 627
- Illegal ventures, exclusion of, 387
- Income tax, 76
- Indemnity:  
 death and dismemberment coverage, 624-625  
 double, 626-627  
 elective, 625-626  
 identification, 627  
 monthly accident, 637
- Indemnity bond, sheriff's, 357-358
- Individuals, fire protection by, 137-138
- Inherent explosion clause, 97, 106-107
- Inherent explosion, hazard exclusion, 172
- Inland marine insurance (*See also* Parcel post insurance):  
 armored motorcar and messenger, 407, 420-421  
 bailee's customers' floaters, 446  
 camera form (world-wide), 421, 430-431  
 cleaners' and dyers' form, 439, 448  
 contractor's equipment floater, 439, 459-460  
 endorsements, 411-412, 414, 418, 423-425, 427, 430-431, 435, 437-438, 442-443, 446, 452-454, 466-467  
 excess policy, 11-12  
 exclusions, 413, 416-417, 422-426, 428-430, 436-438, 441-445, 447, 462, 463  
 fine arts floater, 421, 426-427  
 floor-plan floater, 455-457  
 fur floater, 421, 424  
 furrier's customer's floater, 439, 449-454  
 garment contractor's floater, 439, 449-454  
 horse and wagon floater, 439, 462-463  
 installation floater, 439, 460-461  
 installment floater, 439, 458-459  
 jeweler's block floater, 439, 440-446  
 jewelry-fur floater, 421, 424-425  
 laundry floater, 439, 446-448  
 miscellaneous articles floater, 421, 433-434  
 motor truck carrier's form, 407-411  
 musical instrument floater, 421, 427-428  
 neon sign form, 439, 462  
 onboard and motor boat floater, 421, 431-432  
 pattern floater, 439, 457  
 personal effects floater, 422-424  
 personal property floaters, 407, 421-438  
 policies, 407-467  
 processors' floaters, 439, 449  
 radium floater, 421, 434-435

- Inland marine insurance (*Continued*)  
 registered mail, form, 407, 418-420  
 rug and carpet cleaners' floater, 439, 448-449  
 salesmen's floaters, 439  
 schedule property floater, 421, 422  
 scientific instruments floater, 421, 432  
 shipper's transportation floater, 407, 412-414  
 silverware and silver plate floater, 421, 425-426  
 wool growers' floater, 439, 454  
 Installation floater, 439, 460-461  
 Installation of oil-burning equipment, license bond, 354  
 Installment plan, 104, 105  
 Insurable interest, 733  
 Insurance:  
 aid in business, 25-26  
 aid to credit, 18-19  
 as investment, 20  
 dependents protected by, 21, 24  
 economic development aided by, 22  
 eliminates dependency, 21  
 eliminates worry, 18  
 need for, 24-26  
 principles of, 3-13  
 purpose of, 17  
 thrift promoted by, 19-20  
 value of, 17-23  
 Insurance company:  
 branch offices, 69, 701  
 department organization, 697  
 examinations, 726-727  
 formation of, 695-696  
 incorporation, 726-727  
 Lloyd's, 677, 680-681  
 mutuals, 677-679  
 types of, 677-682  
 Insured:  
 address of, 48  
 age, misstatement by, 45  
 age of, 31, 71  
 broker and, 702  
 cancellation by, 12  
 disability of, 45  
 duties of, 195, 197, 223, 233, 268, 311, 419, 440, 445-446, 559  
 height of, 49  
 individual history of, 47  
 sanity of, 45, 47  
 Internal Revenue bonds, Federal, 352  
 Internal Revenue Code, 60  
 Interstate Commerce Commission, 411  
 Inventory and iron safe clause, 110-111  
 Investment bankers' and stockbrokers' blanket bonds, 339-340  
 Investments:  
 diversifications of, 720  
 insurance company, 715-726, 728  
 life insurance as, 20  
 permitted, 717-718  
 principles of, 715-717  
 Investments (*Continued*)  
 suitability of, 718-720  
 valuation of, 720-721  
 Invoices, coverage of, 311-312  
 Jettison, 377-378  
 Jewclry-fur floater, 421, 424-425  
 Joint life insurance, 29-31  
 Junk dealer, license bond, 354  
 Kidnapping:  
 crime protective bond coverage of, 344  
 of custodian, 264  
 single fraud bond coverage of, 342  
 storekeeper's burglary and robbery policy, 262-263  
 Labels, 390, 418  
 Labor and material payment bond, private, 347  
 Landlord's:  
 furnishings, 102-103  
 liability policy, 486, 508-511  
 protective liability, 507-508  
 protective liability endorsement, 513-514  
 Larceny:  
 exclusions, 109  
 single fraud bond coverage of, 341  
 Larceny insurance, 239-286  
 Laundry:  
 license bond, 354  
 policy, bailee's customers', 439, 446-448  
 Law of averages, 6  
 Laws of the high seas, 390  
 Lawyers' liability policy, 529, 532-533  
 Lay-up allowance, automobile, 581  
 Leaded glass coverage, 162  
 Leakage clause, marine insurance, 384  
 Leasehold insurance, 98, 123  
 Legal department, 699  
 Legal interpretation of contracts, 732-746  
 Legal liability form:  
 fire insurance, 98  
 sprinkler leakage, 164  
 water damage insurance, 167  
 Legal restrictions on investments, 717  
 Legislation, prevention of adverse, 686  
 Lenders' dual obligee endorsement to private performance bond, 348  
 Letting and subletting, 242  
 Liability, types of, 485  
 Liability insurance, miscellaneous, 485-533  
 Liability limits, credit insurance, 304  
 License:  
 renewal of, 703  
 requirements for, 702-703  
 License and permit bonds, 351  
 License bonds:  
 local, 353-354  
 state, 352  
 Life annuity (*See* Annuities)  
 Life insurance:  
 agents, 51  
 application for, 48-49

**Life insurance** (*Continued*)

- as investment, 20
- beneficiaries, 33, 38, 39, 49
- contract, 4, 5, 12
- credit aided by, 19
- disability benefits, 45-48
- dividends, 34b, 38
- double indemnity benefits, 47-48
- endowment, 20, 26, 28-29, 33, 36, 49, 66
- extended, 34
- gift, 75-76
- grace period, 33
- group, 52-54
- industrial, 50-53
- joint, 31
- limited payment, 26, 28
- loan privilege, 34a
- modified, 30
- mutuals, 678-679
- nonforfeiture values, 34
- nonmedical, 49
- old age pensions, 25, 58-63
- ordinary, 26-28
- paid-up, 34
- policy assignment, 45
- policy forms, 26
- policy terms, changing, 45
- proceeds, effect of taxation on, 74-75
- rates, 7, 34b, 40-44, 64
- reinstatement of, 33
- restrictions, 44
- settlement, 38, 39
- term policy, 26-27, 68
- underwriting, 9
- wholesale, 54

**Lightning :**

- accident insurance, 626
- clause in fire policy, 225-226
- damage exclusions, 163-166

**Limited liability, fire insurance form, 98****Limited payment life insurance, 28**

rates, 30

**Livestock floater, 462c****Livestock insurance :**

- breeders' policy, 225, 227
- coverage of voluntary destruction, 221-222
- cow coverage, 221, 225-227
- deductible policy, 225, 226
- endorsements, 222-226
- exclusions, 222, 225
- exhibitors' policy, 225, 227
- Form I, 221-225
- Form II, 225-227
- horses, coverage, 221
- liability, 225
- loss, sworn statement of, 223-224
- need for, 221
- other insurance provision of, 224
- thirty-day foaling policy, 225, 227
- title, 225

**Lloyd's :**

- of London, 680
- organization, 677, 680-681

**Loading charges, 69****Loan department :**

- policy, 700
- real estate, 700

**Loans :**

- automatic premium, 34a
- policy, 720
- privilege of, 34a

**Local :**

- fire insurance mutuals, 678
- license and permit bonds, 63

**Loss :**

- adjustment of fire, 84, 88-90
- and expense constant, 662
- appraisal of fire, 89-90
- assignment before, 87
- consequential damage and, 119-120
- department, 699
- determining property, 4-5, 11
- equitable distribution of, 18
- experience, 6
- fees payable after, 102
- fire, 4-5, 11, 17, 21, 91-92
- insurance for excess, 712
- notification of, 4, 393
- of market, 109
- prevention, 6, 7, 590-591
- proof of, 417
- protection against unexpected, 4-5
- reinstatement after, 103
- reinstatement clause, 135
- uncertain, 17
- valuation of fire, 91-92

**Lost or destroyed instruments bond, 371****Machinery insurance :**

- consequential damage, 191, 194-196
- endorsements, 192-197
- exclusions, 195-197
- policy, 177, 186-191
- rates, 197
- schedule, 186-191
- use and occupancy form, 191-194

**Machinery, mobile agricultural, 463****Mail shipments, 375-376****Mailing department, insurance company, 700****Malicious mischief endorsement, 97, 109, 172****Manual normal loss, 301-302****Manufacturers' and contractors' liability policy, 486-501**

rates, 492-501

**Manufacturer's output policy, 462****Marine insurance :**

- abandonment clause, 383
- all risk clause, 382-383
- average clause, 383, 386
- basis of sale of merchandise, 374
- blanket policy, 372
- breakage clause, 384-385
- builders' risk policy, 394
- cargo policies, 371
- certificates, 373

Marine insurance (*Continued*)

C.I.F. inadequate insurance, 375  
 claim adjustments, 393-398  
 contribution in, 391-392  
 credit aided by, 18-19  
 deductible average, 386  
 delayed delivery clause, 388  
 deviation clause, 387, 388  
 endorsements, 380-381  
 exclusions, 378, 381  
 explosion clause, 382  
 F.P.A. clause, 385  
 freight policy, 371, 394  
 general average loss, 391-392  
 goods on deck clause, 386  
 hull policies, 394  
 illegal venture, 387  
 indemnity and protection, 394  
 leakage clause, 384  
 liability limits under, 7  
 lighterage clause, 376  
 machinery clause, 390  
 memorandum clause, 383-384  
 named risks clause, 382  
 on-deck coverage, 374-375  
 open cargo policy, 372  
 perils covered by, 377-383  
 policies, 371-406  
 port-to-port coverage, 376  
 principles of, 18  
 protection and indemnity, 394, 398  
 rates, 374, 395  
 salvage charges clause, 390-391  
 sue and labor clause, 392-393  
 theft clause, 381  
 transshipment clause, 388  
 valuation, 373  
 war risk clause, 378-380  
 warehouse-to-warehouse clause,  
 376-377  
 "with average" clause, 386

Marine property risks, 3  
 Market value clause, 124  
 Market value form, 98  
 Massachusetts Compulsory Automobile  
 Security Act, 582-584  
 Mechanic's lien, bond to discharge, 358  
 Medical aid, endorsement excluding, 661,  
 664-665  
 Medical and claims committee, 693  
 Medical benefits, workmen's compensation,  
 657  
 Medical payment coverage, 398-399, 511,  
 544, 581  
 Mercantile:  
 open-stock burglary insurance, 240, 257-  
 262  
 open-stock policy coinsurance clause,  
 247-248  
 safe burglary insurance, 239  
 Mercantile burglary insurance, principles  
 of, 6  
 Merchants' protective bond, single, 341-  
 343

## Merit rating:

plans, 4, 6  
 workmen's compensation insurance, 669  
 Messenger robbery insurance, 259-260  
 Messengers, insurance for outside,  
 265-266  
 Mileage basis, automobile insurance, 576  
 Minimum loss clauses, hail insurance, 216  
 217  
 Minimum premium, 4, 12-13  
 Miscellaneous articles floater, 421, 433-434  
 Misrepresentation:  
 fire policy voided by, 87  
 insured's, 87  
 Misstatement of age by insured, 45  
 Modified preliminary term plan, 70  
 Money:  
 and securities destruction policy, 264-  
 268  
 and securities endorsement, 438  
 and securities policy, 265-267  
 scheduled and blanket policies, 266  
 Money orders:  
 express, 419  
 post office, 419  
 Monthly average reporting form,  
 133-134  
 Mortality experience, 34  
 Mortality floater policy, 221  
 Mortality tables:  
 American Experience Table of Mortal-  
 ity, 63, 64, 67  
 construction of, 63  
 use of, 63-72  
 value of, 63-67  
 Mortgage:  
 loans, 117, 718, 719  
 real estate, 22, 31  
 Mortgagee clause, types of, 98  
 Mortgagee interest:  
 endorsement, 172-173  
 rights of, 95, 97, 738  
 Motion picture machine, permission, 107  
 Motor boat floater, 431-432  
 Motor Carrier Act, 411-412  
 Motor truck:  
 carrier's form, 407-411  
 common carrier endorsement, 411-412  
 shipper's form, 407, 412-414  
 Motor vehicle financial responsibility law,  
 584-585  
 Motor vehicles:  
 classification, 566  
 coverage, all types of, 578  
 Motors, 186, 191  
 Moving pictures, fire prevention through,  
 21  
 Multiple and additional interests, 181, 184  
 Multiple interests under a single policy,  
 181, 184-185  
 Multiple location coverage, 98, 133-134  
 Municipal fire surveys, 138  
 Municipal governments, fire protection by,  
 136-137

- Museums :  
 coverage of, 427  
 safety, 686  
 safety device exhibitions in, 21
- Musical instruments floater :  
 broad form, 421, 427  
 exclusions, 428  
 limited form, 421, 428
- Mutual insurance companies, organization of, 677-679, 681, 685
- Name schedule bond :  
 coverage, 325-327  
 restricted form, 327
- Named driver :  
 policy, 571  
 specified car and, 575
- Named risks clause, 382
- National :  
 Association of Insurance Commissioners, 690  
 Bankruptcy Act, 298  
 Board of Fire Underwriters, 138, 686-687  
 Bureau of Casualty Underwriters, 686, 688-689  
 Council on Compensation Insurance, 686, 688-689, 693  
 Fraternal Congress Table, 73  
 Safety Council, 668
- National Automobile :  
 theft bureau, 686, 691-692  
 Underwriters' Association, 688, 690-691
- Natural forces, destruction by, 3
- Neglect, insured's, 88, 166
- Negligence, liability for, 88, 166, 485
- Neon sign endorsement, 235
- Neon sign floater, 439, 462
- Net single premium endowment insurance, 67
- New acquisition endorsement, 427
- New York :  
 annual guarantee bond, 350  
 Automobile Financial Responsibility Act, 584-585  
 Commissioner of Motor Vehicles, 584  
 Compensation Insurance Rating Board, 686, 692  
 Insurance Law, 692  
 standard endorsement, 661-664  
 standard fire insurance form, 167  
 Workmen's Compensation Law, 692
- New York City :  
 auctioneers' bond, 353-354  
 plumbers' bond, 353
- New York State :  
 Insurance Fund, 692  
 Labor Department, 693  
 Vehicle and Traffic Law, 582
- Night depository, 266
- No-control clause, 103
- Noncancellable accident and health insurance, 624, 636-639
- Nonconcurrent insurance, 101
- Nondelivery :  
 excluding, 381  
 including, 381-382
- Non disabling injuries, 623
- Nonfireproof manufacturing schedule, 143
- Nonforfeiture values, 32-33
- Nonmedical insurance, 49
- Nonoccupational disability insurance, 672
- Nonowned automobiles, 577-581
- Nonownership explosion policy, 181, 183
- Nonreporting coinsurance floater form, 133, 136
- Notice of :  
 claim, 304  
 compensation benefits, 657  
 loss, 383
- Occupancy hazards, 137
- Occupational diseases, 655
- Occupied or rented portions only form, 121
- Office expense, insurer's, 7
- Official weighing-scale license bond, 354
- Off-premises power, damage, case of business interruption, 131
- Old-age :  
 needs of, 25  
 pensions, 21
- Optional indemnities, accident insurance, 625, 630, 631
- Optional settlements, amounts available under, 39-44
- Order of arrest bond, 357
- Other insurance :  
 marine insurance and, 389  
 residence theft and away from premises theft, 244
- Other perils, marine insurance, 390  
 labels, capsules, wrapping, 390  
 machinery clause, 390  
 problems after damage, 390
- Outage insurance, 191, 196-197
- Outboard and motor boat floater, 421, 431-432  
 agreements, 432  
 exclusions, 431-432  
 perils covered, 431
- Overtime and limitation of remuneration endorsement, 661, 663-664
- Owners', landlords', and tenants' public liability policy, 486, 508-511  
 exclusions, 509-510  
 rates, 511
- Owner's liability policy, 508, 509
- Ownership, absence of complete, 102
- Paid-up insurance :  
 cash surrender value, 33
- Pair and set endorsement, 427
- Parcel post :  
 descriptive label endorsement, 418  
 foreign coverage, 417-418  
 government insured, 418  
 open policy, 417  
 return or incoming shipment, 418

- Parcel post insurance:  
 coupon form, 415  
 coverage, 407, 415-418  
 exclusions, 416-417  
 governmental and private, 407, 415-418  
 open form, 415, 417
- Participating companies, dividend payments by, 39
- Partnership insurance, 25, 77
- Part-time operation endorsement, 611, 615-616
- Passengers:  
 elevators, accident insurance, 626  
 licensed aircraft, 608, 627  
 public conveyance, accident insurance, 626
- Pattern floater, 439, 457-458
- Paymaster robbery policy, 258, 259
- Payment, if bailee does not pay loss, 389
- Payment of loss, 394
- Payroll:  
 audit committee, 693  
 coverage (broad form), 267
- Pension plans, 58-63
- Permit bonds:  
 Federal, 351-352  
 local, 353  
 types of, 323, 351-353
- Personal effects floater (world-wide), 422-424
- Personal fur certificate, 453
- Personal property floaters, 407, 421-438  
 additional persons named endorsement, 423  
 auto trailer—trailer home endorsement, 424  
 deductible clause, 438  
 endorsements, 423-424, 437-438  
 exclusions, 422-423, 436-437  
 limitation of liability on unscheduled property, 436  
 students' endorsement, 423  
 twenty-five dollar deductible clause, 423  
 unattended automobile endorsement, 424
- Petitioning creditors' bond, 357
- Petty claims, responsibility for, 6
- Physicians' liability policy, 524-525
- Pilferage:  
 aircraft coverage, 163-164  
 clause in marine insurance, 381-382  
 exclusions, 109, 381
- Pilots, aircraft, naming of, 612
- Pilots, airplane, coverage, 615, 617
- Plan, diagram, or drawing, 103-104
- Plate glass, continued coverage of, 232-233
- Plate glass insurance:  
 continued coverage under, 232-233  
 endorsements, 234-236  
 exclusions, 232  
 needs for, 231  
 principles of, 231-238  
 rates, 236-237
- Plumbers' bond, New York City, 351, 353
- Plumbing system, coverage of, 165
- Police, fire protection by, 137
- Policies and endorsements, wording of, 726, 729
- Policy terms, changing, 45
- Port risk insurance, 397
- Portfolio reinsurance, 712
- Port-to-port coverage, marine insurance, 376
- Position bond, blanket, 329-332
- Post Office Department, 415, 418
- Premises, definition of, 240, 247
- Premium:  
 defined, 4  
 effect of Federal taxation on, 74-75  
 minimum, 12  
 nonpayment of, 740  
 over \$3,000, 181  
 return of, 12  
 single, 31  
 waiver of, 45-48, 740
- Premium adjustment clause, 135
- Premium adjustment coverage form, 134
- Premium deductible clause, hail insurance, 217
- Premium discount endorsement, 661, 664
- Present value, 39
- Present worth of dollar, 65-67
- Prevention:  
 accident, 668-669  
 fire (*See* Fire prevention)
- Prism glass, 231
- Private bid or proposal bond, 346
- Private labor and material payment bond, 347-348
- Private maintenance guarantee bond, 348
- Private passenger automobile:  
 classification, 566, 568  
 rates, 566-568
- Private performance bond:  
 lenders' dual obligee endorsement, 348  
 principles of, 346
- Privileges granted, 102
- Probate bonds, special, 355-356
- Processors' floaters, 439, 449
- Product liability insurance, 486, 502-503
- Professional liability insurance, 523-524
- Professional liability policies, 486, 523-524
- Profits and commissions form, 98, 122-124
- Property:  
 conservation of, 139  
 damage, theft, 242  
 loss determination, 4-5, 12  
 ownership in fee, 733
- Proposal bond, 346
- Prorata distribution clause, 100-101
- Prorata reduction of amount of fire insurance, 93, 95
- Protective bond:  
 crime, 343-344  
 single merchants', 341-343
- Protective public liability policy, 486, 503-505  
 exclusions, 504

- Protective public liability policy (*Continued*)  
 limits, 504  
 property damage liability, 504-505  
 provisional amount clause, 134  
 Public automobile:  
 classification, 566-567, 571  
 rates, 571  
 Public express license bond, 354  
 Public health campaigns, 21  
 Public liability insurance, protective, 486, 503-505  
 Public livery automobiles, 566-567  
 Public official bonds:  
 Federal, 354  
 types of, 323, 354  
 Public officials, securities deposited with, policy, 264, 275-276  
 Public relations, promotion of, 688  
 Public warehouses and grain elevator bonds, 353
- Quota share treaties, 709-711
- Race horses, insurance of, 225-227  
 Radium floater, 421, 434-435  
 agreements, 434-435  
 endorsement, 435  
 Railroad securities, investment in, 22  
 Rain insurance:  
 abandonment form, 202-204  
 advance sale of tickets form, 202, 205-207  
 advertising space form, 202, 207-208  
 coverage, 165, 202-212  
 expense, income or profits form, 202, 205  
 fairs and running races form, 202, 204-205  
 Form A, 202-203  
 Form B, 203-204  
 Form C, 204-205  
 Form D, 202, 205  
 Form E, 205-207  
 income from sources named, 202-205  
 need for, 201-202  
 no income expectancy form, 202-204  
 publishers' form, 202, 207-208  
 race form, 202, 204-205  
 rates, 209  
 valued policy, 202, 205  
 Rate-making, basis for, 4, 5-6  
 Rate-making associations:  
 legislative investigation of, 684  
 objections to, 683-684  
 state laws on, 684-685  
 underwriters', 685  
 Ratings, Dun & Bradstreet, 299-300  
 Real estate:  
 improving marketability of, 291  
 investments, 291  
 loan department, 700  
 loans, 718-720  
 mortgages, 22  
 Rebating, state restriction of, 700, 704  
 Rebellion damage exclusion, 109, 163  
 Reciprocal insurance organization, 677, 679-680  
 Reciprocating pumps, coverage of, 190-191  
 Refrigerating equipment, coverage of, 165  
 Regional automobile committees, 690-691  
 Registered mail form, 407, 418-420  
 Registrar's department, 699  
 Reimbursement, accident plus, 638-639  
 Reimbursement coverage (*See* Sickness expense policy)  
 Reinstatement:  
 accident policy, 629  
 paymaster robbery policy, 259  
 policy, 32  
 Reinstatement after loss, 103  
 Reinsurance:  
 facultative, 708-709  
 first line, 710  
 portfolio, 712  
 principles of, 707-708  
 reasons for, 707  
 systems, 708-711  
 treaty, 709-711  
 Reinsurance contracts, 743-744  
 Removal of goods permit, 98, 111  
 Rental insurance, 98, 122  
 Rented or vacant form, 120  
 Repairs:  
 coverage of minor, 163  
 coverage of sprinkler system, 163  
 major sprinkler system, 163  
 permit for ordinary repairs and, 180-188  
 Replacements, coverage of sprinkler system, 163  
 Representations, 741  
 Reserve objects, policy, 181, 183-184  
 Reserves:  
 first year's, 69  
 insurance company, 69-72  
 life insurance, 70-72  
 terminal, 72  
 Residence:  
 blanket schedule, 188-190  
 boilers, 186, 188  
 burglary insurance, 239-246  
 coverage, special, 190  
 divided coverage form, 240-241  
 employe, definition, 240  
 fifty per cent blanket form, 240-241  
 insurance premium charges, 245-246  
 larceny insurance, 239-246  
 liability policy, 188  
 new, 242  
 one hundred per cent form, 240-242  
 robbery insurance, 239-246  
 theft insurance, 239-246  
 Residence theft and away from premises  
 theft insurance:  
 additional coverages, 246  
 coverage, 240-246  
 Retrocession, 712-713  
 Retrospective rating plan, 669, 671-672  
 Return of premium, 4, 12

- Revolution, damage exclusions, 109, 163  
**Riders:**  
   antedating, 312-313  
   back sales, 308  
   construed date of shipment, 312  
   excluded sales, 312, 313  
   extraordinary debtor, 312, 313  
   guarantor, 312, 313  
   interim adjustment of claims, 312  
   specially processed merchandise, 312  
   superseded suretyship, 325  
**Riot:**  
   clause, 172  
   coverage of, 107, 172  
   damage exclusions, 88, 108, 163, 166  
   endorsement, 172  
**Riot insurance, theft coverage, 380**  
**Robbery:**  
   crime protective bond coverage of, 344  
   single fraud bond coverage of, 341  
**Robbery insurance:**  
   bank, 240, 255-257  
   from custodian outside office premises, 264  
   from custodian within office premises, 264  
   interior, 240, 260-262  
   mercantile, 240, 257-262  
   messenger, 240, 259-260  
   office burglary and, 240, 269  
   paymaster, 240, 257-259  
   principles of, 239-286  
   storekeeper's burglary and, 262-263  
**Rotating electrical machines, 186, 191**  
**Rug and carpet cleaners' floater, 439, 448-449**  
**Rust, damage exclusion, 163**  
  
**Safe burglary, 264**  
   crime protective coverage of, 344  
   mercantile insurance, 239, 265-266  
   single fraud bond coverage of, 341  
**Safe deposit boxes, insurance for lessees of, 264, 272-273**  
**Safe depository liability policy, 264, 273-274**  
**Safeguards, machine, 20**  
**Safety:**  
   device exhibitions, 21  
   engineering committee, 692-693  
   museums, 21  
**Salary allotment insurance, 55**  
**Salesmen's floaters:**  
   broad form of, 442-443  
   exclusions of, 442-443  
   forms of, 439, 441-443  
   limited form of, 442  
   unattended automobile endorsement, 443  
**Salvage, charges clause, marine insurance, 390-391**  
**Saskatchewan Plan, 585-586**  
**Savings bank account, 19**  
**Savings bank insurance, 73**  
  
**Schedule:**  
   property floater, 421, 422  
   rating, garage, and service station, 577  
**Schools, fire prevention education in, 138**  
**Scientific instruments floater, 421, 432**  
**Seasonal objects, 181, 184**  
**Seaworthiness of the vessel, 387**  
**Securities:**  
   definition of, 275  
   deposited with public officials, policy, 264, 275-276  
**Securities insurance:**  
   destruction policy, 264-265  
   for lessees of safe deposit boxes, 264, 272-273  
**Security:**  
   for costs bond, 357  
**Self-insurance, essentials of plans for, 681-682**  
**Selling Agent Commission Form, 130**  
**Selling price, 98**  
**Selling price clause, 124**  
**Selling price form, 98**  
**Service station liability insurance, 571**  
**Settlements, loss, 393**  
**Sewers, backing up of, 166**  
**Sheriff's indemnity bond, 357-358**  
**Shipments, cumulation of, 388**  
**Shipper's transportation floater, 412-414**  
**Short rate tables, fire insurance, 93-95**  
**Sickness (See Health)**  
**Sickness expense policy, 634-635**  
**Silverware and silver plate floater, 421, 425-426**  
**Single fraud bond:**  
   provisions of, 341-343  
   reward clause, 342  
**Single merchants' protective bond:**  
   provisions of, 341, 343  
**Single premium plan, 31**  
**Slander and libel endorsement, 517**  
**Smoke coverage, 107**  
**Social Security Act, 58-60, 681**  
**Special agents, 701**  
**Special probate bonds, 355-356**  
**Specific individuals, endorsement excluding, 666**  
**Specific insurance clause, 134**  
**Specific loss indemnity, 624-625**  
**Specified car and named driver plan, 575**  
**Specified car policy, 571**  
**Spontaneous combustion, 138**  
**Sprinkler endorsement, automatic, 98**  
**Sprinkler leakage insurance, 162-164**  
   aircraft, endorsement, 164  
   assumed liability form, 137  
   exclusions, 163  
   legal liability form, 164  
   liability limits, 163  
   need for, 162  
   newly installed automatic sprinkler system, 164  
   principles of, 162-165  
   repairs and replacements coverage, 163

- Sprinkler schedule, 143  
 Sprinkler system, damage to automatic, 163  
 Stained glass, endorsement, 231, 234-236  
 Stamp collection floater :  
   coverage, 421, 428-430  
   endorsement, 430  
   exclusions, 429  
 Standard Fire Insurance Policy, 102  
 Standardization of practice, 4, 10  
 Standpipe equipment, rate reduction for, 98, 111-112  
 State, 735, 677, 681  
   jurisdiction of, **workmen's compensation**, 654  
   license bonds, 352-353  
   supervision, 4, 9-10  
 State funds, New York, 692  
 State governments, accident prevention by, 669  
 State supervision of insurance companies, 726-730  
 Statistical department, 698-700  
 Statute of Limitations, 736  
 Statutory automobile insurance, 581-582  
 Steam boiler exclusions, 178  
 Steam boiler, explosion, accident insurance, 627  
 Steam boiler insurance :  
   deductible liability policies, 181, 183  
   endorsements, 180-185  
   indefinite suspension, 180  
   other insurance provisions, 179-180  
   policy, 177-200  
   provisions of, 177-185  
   suspension, 180-181  
 Steam engine exclusions, 109  
 Steam pipe exclusions, 109  
 Steam turbine exclusions, 109  
 Stipulation for value bond, 357  
 Stock and fixtures form, 104  
 Stock companies :  
   organization of, 677  
 Stocks :  
   investment in, 718-719  
   sale of, 727  
 Storage and repairs charges, furriers', 453  
 Storekeeper's :  
   burglary and robbery policy, 262-263  
   insurance rates, 262-263  
   liability policy, 519a  
 Strike coverage, not attending, 108  
 Strikes, exclusion of, 380  
 Subletting, 242  
 Subrogation :  
   marine insurance, 394  
   right of, 742  
 Substandard insurance, 49  
 Sue and labor clause, marine insurance, 392-393  
 Suicide :  
   clause, 45  
   exclusion of, 47  
   hazard, 6  
 Suits :  
   defense of title, 294  
   notice of title, 293-294  
 Sunstroke, 625  
 Superannuation, risk of, 3  
 Supervision, state, 4, 8-10  
 Supplemental contract, fire insurance, 107, 109  
 Supply department, insurance company, 700  
 Surety bonds, classification of, 9  
 Surety companies, advantage of corporate, 320-321  
 Surety Underwriters, National Bureau of Casualty and, 686, 688-689  
 Surgeons' liability policy, 524-525  
 Surgical operations, coverage of, 623, 633-634  
 Surrender charge, 33  
 Suspension, automobile insurance provision for, 581  
 Tax collectors' bond, 354  
 Taxes :  
   Federal (*See* Federal)  
   income, 76  
   state, 8  
 Taxicabs, coverage of, 567  
 Temperature endorsement, 109, 119-120  
 Ten per cent deductible clause, hail insurance, 216  
 Tenants' liability policy, 486, 508-511  
 Tenants' protective endorsement, 507  
 Theatrical floater, 439-441  
 Theft :  
   aircraft coverage, 602  
   automatic systems, 6, 414  
   away from premises, 240, 242-243  
   bureaus, 497, 503-504, 686, 691-692  
   exclusions, 88, 109, 166, 381  
   from show windows, premises open, 265  
   from unattended automobiles, 424, 429, 430  
   liability for, 171, 414  
 Theft insurance, 239-286 (*See also* Burglary, Fidelity bond, Personal effects)  
 Third parties :  
   liability of, 10-11  
   rights of, 549, 737  
 Third party actions, workmen's compensation, 657-658  
 Thirty-day foaling policy, 225, 227  
 Thrift, insurance and to, 19-20  
 Ticket agency, license bond, 354  
 Tide, influx of, 166  
 Title :  
   causes of defective, 289  
   cost of searching, 290  
   facilitating search of, 290-291  
   notice of suits involving, 293-294  
 Title insurance :  
   agreement, 291  
   apportionment provision, 295

- Title insurance (*Continued*)  
 appraisals, 294  
 coinsurance clause, 294-295  
 description schedule, 291-292  
 exceptions and limitations, 291-292  
 loss payments, 294  
 need for, 288-289  
 personal property excluded from, 293  
 policy conditions, 291-292  
 policy transfers, 295  
 premium charge, 295-296  
 principles of, 288-297  
 subrogation under, 295  
 subsequent defects excluded, 293
- Title laws, state, sale of automobiles, 591
- Tornado:  
 accident insurance, 626  
 exclusions, 163, 166
- Towing charges coverage, 555
- Trailer, coverage, 544-545
- Trailer endorsement, personal effects floater, 424
- Transformers, 186, 191
- Transit clause, 104, 105
- Transshipment clause, 388
- Treasurers':  
 bond, 354  
 department, 699
- Truckmen's rates:  
 combined local and long-haul, 570-571  
 local, 570  
 long-haul, 570
- Trust insurance, 50
- Tuition fee form, 98, 132-133
- Turkey insurance, 228-229
- Twenty-five per cent accumulative deductible clause, 216
- Twenty-five per cent minimum loss clause, hail insurance, 216
- Twenty per cent deductible clause, hail insurance, 216
- Unauthorized insurance, 703
- Underwriters' agencies, reinsurance by, 711-712
- Underwriters' associations:  
 description of, 683-712  
 economical operation of, 685-686  
 educational activities of, 686  
 enforcement of rules by, 686  
 local, 685  
 national, 685  
 need for, 683  
 policy standardization by, 686  
 public relations promoted by, 686  
 services of, 591, 688
- Underwriters' laboratories, 138, 591
- Underwriting considerations for contract bonds, 348-350
- Underwriting department, insurance company, 698
- Underwriting, limits of, 4, 8-9
- Underwriting practice, 417
- Undesirable risks, insurance of, 668
- Unearned premium endorsement, 98, 120, 438
- Unfired vessels schedule, 186-187
- United States:  
 Air Transport Command (ATC), 616  
 Chamber of Commerce, 691  
 Civil Aeronautics Administration, 611, 616  
 Department of Agriculture, 218  
 Department of Justice, 691  
 Longshoremen's and Harbor Workers' Compensation Endorsement, 661, 667-668  
 Naval Air Transport Service (NATS), 616  
 Treasury Department, 63, 337  
 Weather Bureau, 201, 205, 208-209
- Universal schedule, rate determination by, 140-142
- University endowment fund, 26
- Unoccupied building, endorsement, 97  
 exclusions, 110, 163
- Use and occupancy insurance:  
 boiler and machinery, 191-194  
 coverage, 98, 124, 130  
 premium adjustment, 129
- Usurped power, destruction by, 109, 163, 166
- Vacancy exclusion, 87, 110, 163
- Valuable papers, definition of term, 269
- Value reporting clause, 135
- Valued policy, fire insurance, 96
- Vandalism endorsement, 97, 109, 172
- Vapor damage exclusions, 166
- Vehicles:  
 coverage, 107  
 exclusions, 109
- Vendor's liability, 503
- Verification of values, 135-136
- Void contracts, 741
- Voluntary compensation endorsement, 661, 666-667
- Waiver:  
 by endorsement, 84, 92  
 of premium, 45-48, 740
- War risk:  
 clause, 378-380  
 endorsement, 380-381  
 exclusions, 378  
 insurance bureau, 681
- Warehouse, public, bonds, 353
- Warehouse receipts, 360-361
- Warehouseman, definition of, 361
- Warehouseman's liability policy for property, 85
- Warehouses, bonded, 116-117
- Warranties:  
 defined, 387-388, 742  
 marine insurance, 387-388
- Watchman, rate reduction for, 98, 112

- Water damage insurance:**  
 coverage, 163, 165  
 exclusions, 165-166  
 legal liability form, 167  
 need for, 164-167  
 principles of, 165
- Water heaters, 106**
- Water-pressure system, high, 137**
- Wedding presents floater, 421, 425**
- Wcighmaster license bond, 354**
- Wholesale insurance, 54**
- Windstorm:**  
 coverage of, 107  
 exclusions, 163, 166
- Wired glass windows, 231**
- With average clause, marine insurance, 386**
- Wool growers' floater, endorsements, 439, 454**
- Workmen's compensation insurance:**  
 basic policy declaration, 658  
 compulsory, 13  
 endorsements, 661-668  
 experience rating, 669-671  
 inspection under, 20, 662  
 merit rating plan, 669  
 National Council on, 686, 688-689, 693  
 New York Rating Board for, 686, 692  
 obligations of company, 659  
 policy provisions, 659  
 principles of, 651-676  
 rate reduction in, 13  
 rates for, 13, 663  
 retrospective rating plan, 671-672
- Workmen's compensation insurance (Continued)**  
 standard policy, 658-661  
 state jurisdiction, 656
- Workmen's Compensation Laws:**  
 awards under, 655, 656  
 compulsory, 253  
 contract bond as guarantee for, 344  
 elective, 253  
 injuries covered by, 253, 585, 654-656  
 methods of administering, 653, 655-657  
 occupations covered by, 653, 654  
 rehabilitation, 655-656  
 third party actions under, 657-658  
 waiting period, 655
- World wide:**  
 camera form, 421, 430-431  
 fur floater, 421, 424  
 jewelry-fur floater, 421, 424-425  
 personal effects floater, 421-423
- Worry, elimination of, 18**
- Wrappers, marine coverage of, 18, 390**
- XS credit insurance:**  
 policy, 302, 310-311  
 rates, 313
- Yacht insurance, 395**  
 coverage, 395-397  
 endorsement, 396  
 exclusions, 396  
 hazards, 395-396  
 port risk insurance, 397  
 rates for, 399







