GUIDING PRINCIPLES

Recommended Apportionment Procedure in the Adjustment of Losses Involving Two or More Overlapping Policies

The following pages contain the text of "The Guiding Principles" — detailed procedures for working out the degree of participation on the part of various insurers when a particular loss involves two or more different types of policies. A property policy covering a building includes coverage of an attached neon sign. An inland marine sign policy insures the same sign. If there is a loss under circumstances involving both insurers, which company pays? Or, if both pay, do they pro rate? On what basis? Suppose boiler & machinery insurance is involved also?

It was in order to provide an alternative to acrimonious debate, if not litigation, each time such a problem would arise that an all-industry committee undertook the task of establishing these "principles" — more aptly, perhaps, "recommended procedures" — to be followed whenever an overlap exists between fire, inland marine, or first-party casualty policies. The Guiding Principles are not binding on any insurance company, though many have voluntarily agreed to abide by their precepts.

The text reproduced on General Gp-2 through 42 is the work of the aforementioned committee, as promulgated on November 1, 1963 and unchanged since that date.

FOREWORD

Under practices predating these Guiding Principles, where an overlap in coverage existed between or among policies in the casualty, fire or inland marine classifications of insurance, each such classification participated as a group in the adjustment (subject to extent of available insurance and limiting conditions) without regard to the number of policies involved under each classification.

With the advent of multiple-line policies[1] which cross and re-cross jurisdictional lines, the Associations recommending these Guiding Principles have concluded that, excepting overlap between boiler-machinery policies with any other classification of insurance[2], it is no longer practical to group policies by "segments" of the industry; rather that each policy should contribute as an individual policy unless it be concurrent[3] with another policy or policies, in which instance such group of concurrent policies should contribute as if it were a single policy, subject to the Specific Principles and General Conditions contained herein.

However, retention of the classification concept is necessary to determine under which of the Principles certain overlaps are apportioned; namely, casualty, fidelity[4], fire, inland marine; casualty-casualty, fire-fire, inland-inland. For this purpose, and not to determine concurrent policies, the component coverages found in multiple-line policies should be identified on the basis of their traditional underwriting classification; i.e., the burglary and theft coverages of homeowners policies are casualty; the all-risk personal property coverage found in certain homeowners policies is inland marine.

[1]Wherever the term policy is used, it shall be construed to include fidelity bonds, certificates or certifications of insurance.

[2]See boiler-machinery Illustrative Problems, pages 17 to 27.

[3]See Definitions.

[4]Fidelity wherever used in these Guiding Principles shall not include surety or public official statutory or qualifying bonds.

GUIDING PRINCIPLES

for

OVERLAPPING INSURANCE COVERAGES

(Superseding All Guiding Principles of Prior Date)

THE PURPOSE

WHEREAS from time to time disputes arise in the adjustment and apportionment of losses and claims because of overlapping coverages, which disputes require litigation or arbitration, and

WHEREAS the occurrence of such disputes is against the interests of the insuring public and the companies, and

WHEREAS it is desirable to lay down certain Principles for the elimination of these disputes,

THEREFORE BE IT RESOLVED that the Association of Casualty and Surety Companies, the Inland Marine Underwriters Association, the National Automobile Underwriters Association, the National Board of Fire Underwriters, the National Bureau of Casualty Underwriters and the Surety Association of America recommend to their respective members and subscribers their concurrence in adopting the following Guiding Principles, effective as to losses and claims, other than losses and claims involving retrospective[1] rated policies, occurring on and after **November 1, 1963.**

Note: When retrospective rated boiler-machinery--fire policies overlap, these Guiding Principles do apply.

[1] See Definitions.

THE PLAN

These Principles provide for the equitable distribution of available insurance. As among insurance companies, the "other insurance" clause(s) which is (are) contained in a policy(ies) of insurance, and which may include an excess provision[1], shall be set aside and be inoperative to the extent that it is (they are) in conflict with the purpose of these Principles. Otherwise, these Principles will not change coverage or other conditions under any policy(ies) of insurance.

Further, the application of these Principles shall in no event operate to reduce recovery to the insured below that which would have been obtained under any policy or policies covering the risk.

1 See Definitions.

PART I

THE PROCEDURE

Dealing with first-party property losses and claims, except those situations more specifically provided for in Part II (Specific Principles — casualty-casualty, fire-fire and inland-inland) and the General Conditions.

GENERAL PRINCIPLES

1. Insurance covering same property and same interest:

A. Insurance covering a specifically described article or object, whether or not for an express amount, at a designated location[1] shall be primary to any other insurance.[2] (See Notes 1 and 2)

B. Insurance covering a specifically described article or object, whether or not for an express amount, without designation of location shall be excess as to "1-A" but primary as to any other insurance.[2] (See Notes 1 and 2)

C. Insurance covering a specifically described group or class of related articles or objects, whether or not for an express amount, at a designated location shall be excess as to "1-A" and "1-B" but primary as to any other insurance.[2] (See Notes 1 and 2)

D. Insurance covering a specifically described group or class of related articles or objects, whether or not for an express amount, without designation of location shall be excess as to "1-A," "1-B" and "1-C" but primary as to any other insurance.[2] (See Notes 1 and 2)

E. Insurance covering at a designated location and not specific as to an article or object or as to group or class of related articles or objects shall be excess as to "1-A," "1-B," "1-C" and "1-D" but primary as to any other insurance.[2] (See Notes 1 and 2)

F. Insurance without designation of location and not specific as to an article or object or as to group or class of related articles or objects shall be excess to "1-A," "1-B," "1-C," "1-D" and "1-E."

However, as between insurances without designation of location and not specific as to an article or object or as to group or class of related articles or objects, the policy for the more limited purpose[1] (other than peril) to which the insurance applies shall be primary.[2] (See Notes 1 and 2)

G. Two or more policies providing coverage as set forth in "1-A" through "1-F," respectively, shall be contributing. Contribution shall be as follows:

(1) Whether or not deductibles are involved, contribution shall be on the basis of the Limit of Liability Rule[3] except that, in the event there is an area of common coverage under two or more policies and separate coverage under any one or more such policies, the policy or policies affording separate coverage shall respond first to that loss it alone covers and the remainder of its limit of liability shall contribute to the common loss on the basis of the Limit of Liability Rule.

(a) When one of the policies is subject to a deductible, the amount of loss in excess of the deductible will be considered as the common loss. The policy(ies) without a deductible shall first respond to the loss which it alone covers to the extent of its limit of liability, thereafter the remainder of its limit of liability will contribute with the other insurance to the common loss on the basis of the Limit of Liability Rule.

(b) When two deductibles are involved, the amount of loss in excess of the higher deductible will be considered as the common loss. The differential between the higher and lower deductible shall be assessed to the limit of liability of the policy(ies) subject to the lower deductible The remainder of its limit of liability will contribute with the insurance subject to the higher deductible to the common loss on the basis of the Limit of Liability Rule. Where there are more than two deductibles, the same procedure shall apply.[2] (See Notes 1 and 2)

Note 1. In overlapping situations involving boiler-machinery policies, classifications "1-C," "1-D," "1-E" and "1-F" shall not consider other insurance primary. Therefore, losses will be apportioned in accordance with General Principle 1-G

Insurance effected on a specifically described article or object as defined in General Principles 1-A and 1-B shall be primary to the boiler-machinery policy. However, a building is not construed in overlapping situations involving boiler-machinery policies as a specifically described "article" or "object."

Note 2. In overlapping situations involving burglary policies the term "article" or "object," wherever used in these Principles, is not construed to include buildings or structures.

[1]See Definitions.
[2]See Illustrative Problems.
[3]See General Condition 2.

General Principles

2. Insurance covering same property and different interests:

A. Bailee's customers insurance shall be primary to other insurance effected by the same named bailee-insured. (See General Condition 8)

B. Insurance secured by a custodian covering property belonging to others shall be primary to any other insurance. Where there is more than one custodian, the insurance of the custodian in possession of the property shall be primary. (See General Condition 8)

Note: Bankers and brokers blanket bonds, and fidelity, burglary, theft and jewelers block insurance providing coverage on property "held by the insured in any capacity whether or not the insured is liable for the loss thereof," or with equivalent verbiage, are not construed as insurance covering "different interests" and are not bailee's customers insurance or insurance secured by a custodian covering property belonging to others.

Exceptions:

General Principle (2-B) shall not apply:

(1) when the custodian's insurance is afforded under a policy provision containing the words "property for which the insured is liable," "......may be liable," "......is legally liable," or equivalent verbiage;

Note: For the purpose of these Guiding Principles the above verbiage is construed to provide liability coverage.

(2) when the owner and custodian of the property have stipulated otherwise by written agreement prior to the loss.

C. Contents policies insuring at the place of the loss and covering "employees'," "partners'" or "executives'" personal property, except in 2-B-(1) above, shall be primary to any off-premises coverage available under the employee's insurance. However, insurance covering a specifically described article or object, whether or not for an express amount, shall be primary.

D. Coverage for property "used" or "worn" by the insured, for property of servants or guests, and insurance afforded by the "physical damage to property" coverage, shall be primary to any available insurance in the name of the owner of the involved property, except insurance covering a specifically described article or object, whether or not for an express amount, shall be primary.

E. Installment-Sales or Deferred-Payment Merchandise Insurance:

(1) Evidence of insurance issued by a vendor to a vendee under the provisions of a dual-interest policy specifically or generally describing the article or articles and their values individually or in total as invoiced under a conditional-sales contract shall be deemed to be insurance on specifically described property.

(a) Above-described insurance shall be primary when overlapping with other contents policy(ies).

(b) Above-described insurance shall contribute on the basis of the Limit of Liability Rule when overlapping with insurance expressly describing an article(s) or object(s) whether or not an express amount of insurance applies to each such article(s) or object(s).

(2) When no such evidence of insurance has been issued, the dual-interest policy shall be deemed to be blanket floating insurance.

(a) Above-described insurance shall be excess to other contents insurance in those cases where loss occurs at the location shown in the contents policy.

(b) Above-described insurance shall contribute on the basis of the Limit of Liability Rule when overlapping with a floater policy. It is to be noted that the ten percent (10%) optional extension of the fire policy is floater coverage.[2]

[2]See Illustrative Problems.

GENERAL CONDITIONS

As to General Principles 1 and 2, and any additional Principles or amendments as may hereafter be adopted, it is AGREED that:

1. To provide the greatest recovery to the insured, the insurance declared to be excess or non-contributing under the governing Principle shall not include, in applying any coinsurance, average, or distribution clause(s) contained in any policy(ies), the value or loss on property covered under the insurance declared to be primary. However, it shall include any excess value not covered by the primary insurance and the loss unrecoverable under the primary insurance.

   When a coinsurance (not reduced rate contribution or average) clause is present in any or all policies, it shall be applied as if it were a reduced rate contribution or reduced rate average clause[2]. However, if by this procedure the insured collects less than he would collect under the terms of the coinsurance clause, the coinsurance clause shall be applied as such.

2. "Contribution," unless otherwise as specified in General Principle 1-G, shall be on the basis of the applicable limit of liability under each respective policy or group of concurrent policies as though no other insurance existed, and the limit separately determined under each policy or group of concurrent policies shall be the smallest of the following:

   (a) the amount of insurance,
   (b) the amount of loss, or
   (c) the amount payable after applying any policy limitation(s).

   The limits so determined of all policies or groups of concurrent policies herein declared contributing shall be added and, if the total amount exceeds the whole loss, each policy or group of concurrent policies shall pay such proportion of the loss as its limit bears to the sum of all the limits, but if the sum of the limits of liability is less than the whole loss, then each policy or group of concurrent policies shall pay its limit of liability. The determined liability of a group of concurrent policies shall be apportioned pro rata among the policies of the group.

3. Insurance covering property both scheduled and blanket, or both specific as to location and floating, shall be deemed to insure each item or portion separately, and the loss shall be apportioned in accordance with the Principle applying to each item or portion declared to be separately insured.

   In applying such Condition:

   A. Extensions of coverage in the name of the same insured, whether optional, those creating additional insurance, or based upon a percentage of the principal building or contents policy(ies), whether "permitted" or not, and without reference to inception date, shall be considered as excess to any specific coverage applying to the involved property. However, in the absence of specific insurance, the extensions shall be considered as:

      (1) Blanket insurance for on-premises losses.

      Examples:
      Private structures.
      Rental value.
      Additional living expenses.
      Improvements and betterments.
      Replacement cost coverage.
      Debris removal.

      (2) Floater insurance for off-premises losses.

      Examples:
      Contents while "elsewhere."
      Property removed for preservation from damage caused by the perils insured against.
      Livestock, farm and dairy produce while "elsewhere."

[1]See Definitions.

[2]See Illustrative Problems.

General Conditions

4. When the owner of a building is also the owner of the contents of the building and any overlapping coverage exists involving items of building equipment and fixtures essentially in the nature of real property, the building policy(ies) shall be primary.

   Examples: Covered under building policy(ies).
   Antennae and Towers—TV, detached—not affixed[1] to the building or to an outbuilding.
   Porandas—demountable screened enclosures.
   Readily removable equipment and fixtures that are included in the realty mortgage.
   Wall-to-wall carpeting only when included in the realty mortgage.

   Note: The building policy(ies) shall include, whether in position or stored on the premises, storm doors, storm sash, shades, blinds, wire screens, screen doors and awnings.

5. When the owner of a building is also the owner of the contents of the building and any overlapping coverage exists involving items of building equipment and fixtures essentially in the nature of personal property, the contents policy(ies) shall be primary, except when such items are included in the realty mortgage, in which event the policy(ies) covering building shall be primary.

   Examples: Covered under contents policy(ies).
   Antennae and Towers—TV, affixed[1] to the building or to an outbuilding.
   Fuel.
   Laundering machines whether or not attached to the realty.
   Portable air-conditioning and ventilating units.
   Refrigerators.
   Stoves.
   Wall-to-wall carpeting when not included in the realty mortgage.

6. Tenant's improvements and betterments insurance shall be primary to building insurance when the insured is owner and occupant of a co-operative apartment. However, the tenant's insurance shall first be made available to the loss on his own property and to property not otherwise insured.

7. The Principle specifically providing the basis of apportionment shall prevail over any Principle more general in scope.

8. Where a bailee's policy(ies) covers his own property, as well as property of others, the bailee's policy(ies) shall first be made available to the loss on the bailee's own property and to property not otherwise insured. Such claim or claims will be adjusted subject to all policy conditions affecting the adjustment, except that value and loss of otherwise insured property shall be deleted from the adjustment.

   A second statement of loss should then be prepared by the adjuster including all values and loss covered by the terms of the bailee's policy(ies) as written to determine the maximum liability under the policy.

   Distribution should then be made

   (a) to the loss on the bailee's own property and to the loss on otherwise uninsured interests,

   (b) to the otherwise insured interests for the difference, if any, up to the maximum liability under the bailee's insurance.

   While right of action under subrogation is retained by the bailors' insurers, the inclusion of the bailee insurer's name in any action against the bailee is contrary to the intent of these Principles.

   Claim filed by other insurers with the bailee insurers after payment or advance to owners shall be recognized to the same extent as if directly presented by the owner through the bailee in order to fulfill the purpose of these Principles, except where the bailee insurer may have certain facts in connection with a specific claim that justify reimbursement in a sum less than the amount paid by the bailor insurer.

9. Differences of opinion respecting the application or effect of these Principles shall be submitted for arbitration in the manner determined by the participating Associations. Payments of loss, or advances under loan agreements, or otherwise, shall be without prejudice to the rights of the insurers under these Principles.

[1] See Definitions.

ILLUSTRATIVE PROBLEMS

The following Illustrative Problems are for guidance purposes only and are not intended to limit the scope of the Principles.

General Principle 1-A

This applies to insurance written to cover an individual article or object, whether or not for an express amount, **at a designated location**, such as:

Neon Sign
Picture
Stained-Glass Window
Plate of Glass
Manuscript or Valuable Paper

Illustrative Problem (1) — $1,200 loss to a plate of glass.

Coverage

Casualty (glass) policy covers replacement cost of glass	(Open)
Fire and extended coverage insurance— Building (subject to 80% coinsurance clause)	$25,000.00

Property	Value	Loss
Plate of glass	$ 1,200.00	$1,200.00
Building (exclusive of plate of glass)	28,800.00	None
	$30,000.00	$1,200.00

Solution

Entire loss to plate of glass is assessed the casualty policy.

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Illustrative Problem (2) — $1,200 loss to a plate of glass and $200 boarding-up charge.

Coverage

Casualty (glass) policy covers replacement cost of glass	(Open)
Boarding-up charge	$75.00
Fire and extended coverage insurance — Building (subject to 80% coinsurance clause)	$25,000.00

Property	Value	Loss
Plate of glass	$ 1,200.00	$1,200.00
Boarding-up charge	—	200.00
Building (exclusive of plate of glass)	28,800.00	
	$30,000.00	$1,400.00

Solution

Casualty policy is primary insurance. However, policy has a $75.00 limitation on boarding-up charge. Therefore, claim under each type of insurance is:

Primary insurance — plate glass casualty policy

Plate of glass	$1,200.00
Boarding-up charge	75.00
	$1,275.00

Excess insurance — fire and extended coverage policy

Boarding-up charge ($200 less $75)	125.00
Total recovery	$1,400.00

Note: If metal stripping or obstruction removal is involved, the solution would parallel the above. Debris removal is charged under fire policy and is not to be confused with removal of obstruction.

General Principle 1-A

Illustrative Problem (3) — $100 loss to a neon sign.

Coverage

Inland marine neon sign policy subject to 100% coinsurance clause and $10 deductible clause	$125.00	
Fire insurance — Building (subject to 90% coinsurance clause)	$25,000.00	

Property

	Value	Loss
Neon sign	$ 150.00	$100.00
Building (exclusive of the neon sign)	30,000.00	None
	$30,150.00	$100.00

Solution

Primary insurance

Inland marine policy — application of 100% coinsurance clause $125.00/$150.00 of $100.00 or	$83.33
Less deductible	10.00
Claim under primary insurance	$73.33

Excess insurance

	Value	Loss
Building, including neon sign	$30,150.00	$100.00
Less value covered by the primary insurance	125.00[4]	
Less amount paid by the primary insurance		73.33[4]
Excess value and loss	$30,025.00	$ 26.67

Application of 90% coinsurance clause is $25,000.00/$27,022.50 (90% of $30,025.) of $26.67 or $24.67

Total claim under each policy is:

Inland policy	$73.33
Fire and extended coverage policy	24.67
Total claim	$98.00

[4]See General Condition 1.

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General Principle 1-B

This applies to insurance written to cover **an individual article or object,** whether or not for an express amount, without designation of location, such as:

Fur Coat
Diamond Ring
Camera
Animal
Bulldozer

Illustrative Problem (1) — Total loss to a fur coat (off-premises).

Coverage

Inland marine policy Scheduled fur floater	$ 500.00
Fire insurance — household contents form (10% applicable to property away from premises)	$5,000.00

Property

	Value	Loss
Fur coat	$500.00	$500.00

Solution

Entire loss to fur coat is assessed to inland marine policy.

General Principles 1-B - 1-E and General Condition 1

Illustrative Problem (2)

Coverage

Household contents policy		$5,000.00
Personal property floater or homeowners MIC 5		8,500.00
Unscheduled personal property	$7,500.00	
Scheduled property — picture	1,000.00	

No credit or pickup endorsement

Fire loss — on-premises

Property	Value	Loss
Picture	$ 1,500.00	$1,500.00
Unscheduled personal property	15,000.00	6,000.00
	$16,500.00	$7,500.00

Solution

Household contents policy insures all personal property at a designated location, whereas the personal property floater covers separately on unscheduled personal property and on scheduled property. Policies are not alike in coverage. Therefore, loss is distributed in accordance with Principles 1-B, 1-E and General Condition 1.

Primary insurance

Step 1 — Application of Principle 1-B

Personal property floater covering scheduled property without designation of location is primary to the household contents policy.

Recovery from scheduled property coverage is $1,000.00

Step 2 — Application of Principle 1-E

Household contents policy covering all personal-property at a designated location is primary to the unscheduled personal property floater.

In accordance with General Condition 1, the amount not recovered from the scheduled personal property floater is assessed to the household contents policy.

Excess loss to scheduled property is $500.00

As the household contents policy insures at a designated location, it is primary to the unscheduled personal property floater coverage as respects loss sustained to unscheduled personal property. The household contents policy, therefore, is charged, in addition to the excess loss to scheduled personal property, with the loss to unscheduled personal property to the extent of the difference between $500. which has been paid on excess loss to scheduled property and the amount of its policy. Amount paid on unscheduled personal property is ($5,000.00 less $500.00 or) $4,500.00.

Total payment under household contents policy is:

Scheduled property	$ 500.00
Unscheduled personal property	4,500.00
	$5,000.00

Step 3 — Application of General Condition 1

"To provide the greatest recovery to the insured, the insurance declared to be excess or noncontributing under the governing Principle shall not include, xxx the value or loss on property covered under the insurance declared to be primary. However, it shall include only excess value not covered by the primary insurance and the loss unrecoverable under the primary insurance."

The amount of unscheduled personal property not recovered from the primary insurance is $1,500.00 ($6,000.00 less $4,500.00). This sum is assessed the unscheduled personal property floater.

Total claim under each policy is:

Household contents		
Scheduled property	$ 500.00	
Unscheduled personal property	4,500.00	$5,000.00
Personal property floater		
Scheduled property	$1,000.00	
Unscheduled personal property	1,500.00	2,500.00
		$7,500.00

General Principle 1-C

This applies to insurance written to cover a specifically described group or class of related articles or objects, whether or not for an express amount, **at a designated location,** such as:

Stained-Glass Windows
Silverware
Trophies
Antiques

Illustrative Problem (1) — Loss to antiques in dealer's premises.

Coverage

Inland marine — fine arts dealer's policy covering blanket on antiques	$ 5,000.00	
Fire insurance — contents 90% coinsurance clause	20,000.00	
Property	**Value**	**Loss**
Antiques	$ 5,000.00	$1,500.00
Other contents	30,000.00	None
	$35,000.00	$1,500.00

Solution

Entire loss to antiques is assessed the inland marine policy.

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Illustrative Problem (2) — Loss to stained-glass windows and building.

Coverage

Inland marine fine arts policy covering stained-glass windows	$ 10,000.00	
Fire and extended coverage insurance — Church building subject to an 80% coinsurance clause	100,000.00	
Property	**Value**	**Loss**
Stained-glass windows	$ 10,500.00	$10,500.00
Church building (other than stained-glass windows)	157,000.00	5,000.00
	$167,500.00	$15,500.00

Solution

Primary insurance — inland marine (fine arts policy)

Loss to stained-glass windows is assessed the inland marine policy to the extent of its policy limits.

Excess insurance — fire and extended coverage (building policy)

Balance of loss is assessed to the building policy as follows:

Building including stained-glass windows	$167,500.00	$15,500.00
Less value covered by the primary insurance	10,000.00[4]	
Less amount paid by the primary insurance		10,000.00[4]
Excess value and loss	$157,500.00	$ 5,500.00

Application of 80% coinsurance clause is:
$100,000.00/$126,000.00 (80% of $157,500.00) of $5,500.00 or $4,365.08

Claim under each policy is:

Inland marine policy	$10,000.00
Fire and extended coverage policy	4,365.08
Total claim	$14,365.08

[4]See General Condition 1.

General Principle 1-C

Illustrative Problem (3) — Loss to stock.

Coverage

Stock	$ 5,000.00 — no coinsurance
Contents	10,000.00 — no coinsurance

Property

Loss to stock	$ 1,000.00

Solution

Stock loss is less than the amount of specific stock coverage; therefore, entire loss assessed to the specific stock policy.

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Illustrative Problem (4) — Loss to stock.

Coverage

Stock	$ 5,000.00 — 80% coinsurance
Contents	10,000.00 — 80% coinsurance

Property

	Value	Loss
Stock	$ 10,000.00	$ 1,000.00
Furniture and fixtures	7,500.00	nil
	$ 17,500.00	$ 1,000.00

Solution

Primary insurance — stock

Application of 80% coinsurance clause under policy insuring specific on stock is:
$5,000.00/$8,000.00 of $1,000.00 or $625.00

Excess insurance — contents

	Value	Loss
Contents	$ 17,500.00	$ 1,000.00
Less value covered by the primary insurance	5,000.00	
Less amount paid under the primary insurance		625.00
Excess value and loss	$ 12,500.00	$ 375.00

80% coinsurance clause complied with. Entire excess loss assessed contents policy.

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General Principle 1-D

This applies to insurance written to cover a specifically described group or class of related articles or objects, whether or not for an express amount, without designation of location such as:

Stamp Collection
Tractors
Cattle or Animals

Illustrative Problem (1) — Loss to a stamp collection.

Coverage

Inland marine — scheduled floater policy covering stamp collection	$ 2,500.00
Fire policy — household contents form	10,000.00

Property

	Value	Loss
Stamp collection	$ 2,500.00	$2,500.00
Other contents	12,500.00	None
	$15,000.00	$2,500.00

Solution

Entire loss to stamp collection assessed the inland marine policy.

General Principle 1-D

Illustrative Problem (2) — Loss to builder's tools and equipment at the construction location.

Coverage

Inland marine — contractor's equipment floater	$ 5,000.00
Fire policy—builder's risk insuring at construction site (including builder's tools and equipment)	50,000.00

Property

	Value	Loss
Builder's tools and equipment	$5,000.00	$500.00

Solution

Entire loss assessed the inland marine contractor's equipment floater policy.

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General Principle 1-E

This applies to insurance written to cover at a designated location and not specific as to an "article" or "object" or as to a "group or class of related articles or objects" and shall be excess as to "1-A," "1-B," 1-C" and "1-D," but primary as to any other insurance.

Illustrative Problem (1)

Coverage

Household contents policy	$5,000.00
Personal property floater	7,500.00
No credit or pickup endorsement	
Fire loss — on-premises	$ 500.00

Solution

Entire loss assessed to the household contents policy.

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See General Principle 1-B — Illustrative Problem (2)

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General Principle 1-F

This applies to insurance without designation of location and not specific as to an "article" or "object" or as to "group or class of related articles or objects" and shall be excess to "1-A," "1-B," "1-C," "1-D" and "1-E," such as:

- Floater Policies
- Trip Transit
- Tourist Baggage
- Trip Travel
- Sportman's
- Certificate (covering contents of rental trailers or other similar type of coverages)
- Armored Car

Illustrative Problem (1) — A fire loss to personal effects contained within a vehicle.

Coverage

Automobile policy — covering wearing apparel or personal effects	$ 100.00
Personal property floater — unscheduled personal property	5,000.00

Property

	Value	Loss
Personal effects	$ 90.00	$ 90.00

Solution

Entire loss assessed to the automobile policy.

(The coverage under the automobile policy is confined to personal effects while they are in or upon the automobile.)

For the purpose of this Principle a vehicle is considered as a specified location even though mobile.

General Principle 1-F

Illustrative Problem (2) — Fire loss to contents of a rental trailer.

Coverage

Inland marine — certificate covering contents of a rental trailer (subject to a $100.00 deductible clause)		$ 800.00	
Fire policy — household contents		4,500.00	
Off-premises		450.00	
Property	**Value**		**Loss**
Contents of rental trailer	$2,500.00		$750.00

Solution

Inland marine certificate is primary insurance. However, same is subject to a $100.00 deductible clause and claim under each type of insurance is:

Primary insurance (inland marine)		
Amount of loss	$750.00	
Less deductible	100.00	
Claim		$650.00
Excess insurance (fire)		
Amount of loss	$750.00	
Less amount paid under primary insurance	650.00	
Claim		100.00
Total Claim		$750.00

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General Principle 1-G

Two or more insurances which are not concurrent but providing coverage as set forth in "1-A" through "1-F" shall contribute.

Illustrative Problem (1)

Coverage

Household contents or (homeowners 1, 2 or 4) —
$5,000.00 on household and personal property
Personal property floater —
$7,500.00 on unscheduled personal property
No credit or pickup endorsement

Property

Fire loss to unscheduled personal property (off-premises) $100.00

Solution

The loss is covered under both policies. As loss is off-premises household contents coverage is limited to 10% of the insurance. The loss is distributed in accordance with Principle 1-G.

Household contents policy		**Limit of Liability**	**Pays**
Amount of policy	$5,000.00		
Off-premises coverage 10% or	500.00		
Loss	100.00		
Limit of liability		$100.00	$ 50.00
Personal property floater			
Coverage	$7,500.00		
Loss	100.00		
Limit of liability		100.00	50.00
		$200.00	$100.00

General Principle 1-G

Illustrative Problem (2)

Coverage

Homeowners MIC-5
$15,000.00 on unscheduled personal property
No credit or pickup endorsement

Personal property floater —
$5,000.00 on unscheduled personal property
No credit or pickup endorsement

Property

Fire loss to unscheduled personal property (on-premises) $500.00

Solution

Apportionment based on Principle 1-G.

		Limit of Liability	Pays
Homeowners MIC-5			
Coverage	$15,000.00		
Loss	500.00		
Limit of liability		$ 500.00	$250.00
Personal property floater			
Coverage	$ 5,000.00		
Loss	500.00		
Limit of liability		500.00	250.00
		$1,000.00	$500.00

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Illustrative Problem (3)

Coverage

Homeowners MIC-1, 2 or 4 —
$7,500.00 on unscheduled personal property
No credit or pickup endorsement

Household contents policy
$5,000.00 on household and personal property

Fire loss — to unscheduled personal property (on-premises) $1,000.00

Solution

Apportionment based on Principle 1-G.

		Limit of Liability	Pays
Homeowners MIC-1, 2 or 4			
Coverage	$7,500.00		
Loss	1,000.00		
Limit of liability		$1,000.00	$ 500.00
Household contents			
Coverage	$5,000.00		
Loss	1,000.00		
Limit of liability		1,000.00	500.00
		$2,000.00	$1,000.00

General Principle 1-G

Illustrative Problem (4)

Coverage

Homeowners MIC-5
- $12,000.00 on unscheduled personal property
- $ 100.00 diminishing deductible
- No credit or pickup endorsement

Personal property floater
- $5,000.00 on unscheduled personal property
- No credit or pickup endorsement

Property

Loss to unscheduled personal property (on-premises) $450.00

Solution

Apportionment based on Principle 1-G.

Step 1 — Establish limits of liability for each of the separate coverages.

		Limit of Liability
Homeowners		
Coverage	$12,000.00	
Loss	450.00	
Claim — 125% of ($450.00 less [1]deductible of $100.00) $350.00 or	437.50	
([1]application of diminishing deductible establishes the deduction as $12.50 rather than $100.00)		
Limit of liability		$437.50
Personal property floater		
Coverage	$10,000.00	
Loss	450.00	
Limit of liability		450.00
		$887.50

Step 2 — Assess loss separately covered to insurance which alone affords coverage.

The [1]$12.50 deductible of the homeowners policy is assessed to the personal property floater.

Step 3 — Contribution to area of common coverage.

Loss to area of common coverage is $450.00 less $12.50 or $437.50.

The amount paid under the personal property floater to the area it alone covers is deducted from its limit of liability. The remaining limit of liability then contributes with the limit of liability of the homeowners policy to pay loss to area of common coverage.

	Limit of Liability	Pays
Homeowners	$437.50	$218.75
Personal property floater (remaining limit of liability $450.00 less $12.50)	437.50	218.75
	$875.00	$437.50
Total claim under each policy is:		
Homeowners —		
Share of area of common coverage loss		$218.75
Personal property floater —		
Deductible	$ 12.50	
Share of area of common coverage loss	218.75	231.25
		$450.00

General Principle 1-G

Illustrative Problem (5)

Coverage

Homeowners MIC-5
$12,000.00 on unscheduled personal property
$ 100.00 diminishing deductible
No credit or pickup endorsement

Personal property floater
$10,000.00 on unscheduled personal property
$ 25.00 deductible
No credit or pickup endorsement

Property

Loss to unscheduled personal property (on-premises) $450.00

Solution

Apportionment based on Principle 1-G.

Step 1 — Establish limits of liability for each of the separate coverages.

		Limit of Liability
Homeowners		
Coverage	$12,000.00	
Loss	450.00	
Claim — 125% of ($450.00 less deductible of $100.00) $350.00 or	437.50	
(application of diminishing deductible establishes the deduction as $12.50 rather than $100.00)		
Limit of liability		$ 437.50
Personal property floater		
Coverage	$10,000.00	
Loss	450.00	
Claim — $450.00 less $25.00 or	425.00	
Limit of liability		425.00
		$ 862.50

The amount of the lowest deductible ($12.50) represents a sum not insured under either policy.

Step 2 — Assess loss separately covered to insurance which alone affords coverage.

The difference between the highest and lowest deductible ($25.00 less $12.50) or $12.50 is assessed to the policy having the lowest deductible.

Step 3 — Contribution to area of common coverage.

The amount of $12.50 paid under the homeowners policy to area it alone covers is deducted from its limit of liability. The remaining limit of liability then contributes with the limit of liability of the personal property floater to pay loss to area of common coverage.

Loss in excess of the highest deductible or ($450.00 less $25.00) $425.00 is the loss to area of common coverage.

	Limit of Liability	Pays
Homeowners (remaining limit of liability $437.50 less $12.50)	$425.00	$212.50
Personal property floater	425.00	212.50
	$850.00	$425.00

Total claim under each policy is:		
Homeowners —		
Deductible	$ 12.50	
Share of area of common coverage loss	212.50	
		$225.00
Personal property floater —		
Share of area of common coverage loss		212.50
		$437.50

General Principle 1-G

Illustrative Problem (6)

Coverage

Homeowners MIC-5

$20,000.00 on unscheduled personal property
$ 250.00 limit on jewelry
$ 100.00 diminishing deductible
No credit or pickup endorsement

Personal property floater

$17,750.00 on unscheduled personal property
$ 250.00 limit on jewelry
$ 50.00 deductible
No credit or pickup endorsement

Property

Loss to jewelry $415.00

Solution

Apportionment based on Principle 1-G.

		Limit of Liability	Pays
Homeowners			
Coverage	$20,000.00		
Loss	415.00		
Claim—125% of ($415.00 less $100.00) $315.00 or	393.75		
Policy limit on jewelry	250.00		
Limit of liability		$ 250.00	$ 230.56
Personal property floater			
Coverage	$17,750.00		
Loss	415.00		
Policy limit on jewelry	250.00		
Application of deductible $250.00 less $50.00 or	200.00		
Limit of liability		200.00	184.44
		$ 450.00	$ 415.00

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Illustrative Problem (7)

Coverage

Homeowners

$25,000.00 on dwelling
No credit or pickup endorsement

Standard fire dwelling form

$10,000.00 on dwelling

Property

Loss to dwelling — $1,000.00

Solution

Apportionment based on Principle 1-G.

		Limit of Liability	Pays
Homeowners			
Coverage	$25,000.00		
Loss	1,000.00		
Limit of liability		$ 1,000.00	$ 500.00
Standard dwelling form			
Coverage	10,000.00		
Loss	1,000.00		
Limit of liability		$ 1,000.00	$ 500.00
		$ 2,000.00	$ 1,000.00

General Principle 1-G

Illustrative Problem (8) — Burglary loss involving premise damage to owner-occupied risk.

Coverage

Casualty			
Mercantile open stock policy	$ 15,000.00		
Fire policy subject to extended coverage and vandalism and malicious mischief endorsements			
Building and contents	$100,000.00		
Property		**Value**	**Loss**
Stock		$ 37,500.00	$1,000.00
Premise damage		87,500.00	500.00
		$125,000.00	$1,500.00

Step 1 — Establish limit of liability.

Mercantile open stock policy			**Limit of Liability**
Insurance		$ 15,000.00	
Loss —			
Stock	$ 1,000.00		
Premise damage	500.00	1,500.00	
Limit of liability			$1,500.00
Fire policy (E.C.E. and V. and M.M.)			
Insurance		$100,000.00	
Loss — premise damage		500.00	
(fire policy does not cover loss to stock)			
Limit of liability			$ 500.00
			$2,000.00

Step 2 — Loss separately covered assessed to policy which alone affords coverage.

Stock loss assessed the mercantile open stock policy which alone affords coverage and the remaining limit of liability participates with the fire policy (E.C.E. and V. and M.M.) to pay loss to area of common coverage.

Stock loss assessed mercantile open stock policy	$1,000.00

Step 3 — Contribution to area of common coverage on basis of available limits of liability.

Loss to area of common coverage is $500.00.

		Limit of Liability	**Pays**
Mercantile open stock policy (remaining limit of liability)		$ 500.00	$ 250.00
Fire policy (E.C.E. and V. and M.M.)		500.00	250.00
		$ 1,000.00	$ 500.00
Claim under each policy is:			
Mercantile open stock policy			
Stock	$ 1,000.00		
Area of common coverage pays	250.00		
			$1,250.00
Fire policy (E.C.E. and V. and M.M.)			
Area of common coverage pays			250.00
			$1,500.00

General Principle 1-G

Illustrative Problem (9) — One policy subject to a deductible clause.

Coverage

"Fire Group"	$75,000.00	
"Boiler Group"	50,000.00	— $1,000.00 deductible clause

Property

Loss	$15,000.00

Solution

Step 1 — Establish limit of liability.

		Limit of Liability
"Fire Group"		
Insurance	$75,000.00	
Loss	15,000.00	
Limit of liability		$15,000.00
"Boiler Group"		
Insurance	50,000.00	
Loss	15,000.00	
Claim $15,000.00 less $1,000.00 or	14,000.00	14,000.00
Limit of liability		$29,000.00

Step 2 — Assess loss separately covered to policy which alone affords coverage.

The $1,000.00 uninsured under the "Boiler Group" is first assessed to the "Fire Group" which alone affords coverage and the remaining limit of liability participates with the "Fire Group" to pay loss to area of common coverage.

Step 3 — Contribution to area of common coverage on basis of available limits of liability.

Loss to area of common coverage is $14,000.00.

	Limit of Liability	Pays
"Fire Group" (remaining limit of liability)	$14,000.00	$ 7,000.00
"Boiler Group"	14,000.00	7,000.00
	$28,000.00	$14,000.00

Claim under each policy is:

"Fire Group"		
Deductible	$ 1,000.00	
Area of common coverage pays	7,000.00	
		$ 8,000.00
"Boiler Group"		
Area of common coverage pays		7,000.00
		$15,000.00

General Principle 1-G

Illustrative Problem (10) — One policy subject to a deductible clause.

Coverage

"Fire Group"	$500,000.00
"Boiler Group"	50,000.00 — **$5,000.00 deductible clause**

Property

Loss	$525,000.00

Solution

Step 1 — Establish limits of liability for each group.

		Limit of Liability
"Fire Group"		
Insurance	$500,000.00	
Loss	525,000.00	
Payable under policy limitations	500,000.00	
Limit of liability		$500,000.00
"Boiler Group"		
Insurance	50,000.00	
Loss	525,000.00	
Payable under policy limitations	50,000.00	
Limit of liability		$ 50,000.00

Step 2 — Assess loss separately covered to group which alone affords coverage.
The $5,000.00 deductible of the "Boiler Group" is assessed to the "Fire Group" which alone affords coverage. Its remaining limit of liability contributes with the "Boiler Group" to pay loss to area of common coverage.

Step 3 — Contribution to area of common coverage on basis of available limits of liability.
Loss to area of common coverage is $520,000.00 ($525,000.00 — $5,000.00)

	Limit of Liability	Pays
"Fire Group" (remaining limit of liability)	$495,000.00	$472,293.58
"Boiler Group"	50,000.00	47,706.42
	$545,000.00	$520,000.00

Summary of claim to each group is:

"Fire Group"		
Deductible	$ 5,000.00	
Share of loss to area of common coverage	472,293.58	$477,293.58
"Boiler Group"		
Share of loss to area of common coverage		47,706.42
		$525,000.00

General Principle 1-G

Illustrative Problem (11) — Each group subject to a deductible clause.

Coverage

"Fire Group"	$75,000.00 —	$ 200.00 deductible clause
"Boiler Group"	50,000.00 —	$1,000.00 deductible clause

Property

Loss	$15,000.00

Solution

Step 1 — Establish limit of liability.

		Limit of Liability
"Fire Group"		
Insurance	$75,000.00	
Loss	15,000.00	
Claim $15,000.00 less $200.00 or	14,800.00	
Limit of liability		$14,800.00
"Boiler Group"		
Insurance	$50,000.00	
Loss	15,000.00	
Claim $15,000.00 less $1,000.00 or	14,000.00	
Limit of liability		14,000.00
		$28,800.00

Step 2 — Assess loss separately covered to policy which alone affords coverage.
The difference between the highest and lowest deductibles is assessed to the "Fire Group" which alone affords coverage and the remaining limit of liability participates with the "Boiler Group" to pay loss to area of common coverage.

Step 3 — Contribution to area of common coverage on basis of available limits of liability.
Loss to area of common coverage is $14,000.00

	Limit of Liability	Pays
"Fire Group" (remaining limit of liability)	$14,000.00	$ 7,000.00
"Boiler Group"	14,000.00	7,000.00
	$28,000.00	$14,000.00

Claim under each policy is:

"Fire Group"		
Differential between the highest and lowest deductible — $1,000.00 less $200.00 or	$ 800.00	
Area of common coverage pays	7,000.00	
		$ 7,800.00
"Boiler Group"		
Area of common coverage pays		7,000.00
		$14,800.00

Note: Lowest deductible assumed by insured.

General Principle 1-G

Illustrative Problem (12) — Time element loss.

Coverage

"Fire Group" $761,000.00 — 80% coinsurance clause
"Boiler Group" (Valued Form) $3,000.00 daily indemnity
Commencement of liability — 1st Midnight
Limit of loss $100,000.00

Other considerations — Time of occurrence 12:01 A.M.; plant operates twenty-four hours per day; occurrence causes 100% shutdown of operations.

Business Interruption		Value	Loss
Value		$1,128,055.00	
Period of suspension			
80 hours or 3⅓ days			
1st 24-hour period	$5,198.00		
2nd 24-hour period	5,198.00		
3rd 24-hour period	5,198.00		
4th 8-hour period	1,732.66		$17,326.66

Step No. 1 — Establish respective limits of liability.

"Fire Group"		Limit of Liability
Insurance	$761,000.00	
Loss	17,326.66	
Application of 80% coinsurance clause — $761,000.00/$902,444.00 of $17,326.66	14,610.97	$14,610.97

"Boiler Group"	Limit of Liability	
Insurance — $3,000.00/day from 1st Midnight		
1st 24-hour period — 12:01 A.M. — 12:00 Mdnt —	no coverage	
2nd 24-hour period — 12:00 Mdnt — 12:00 Mdnt —	$3,000.00	
3rd 24-hour period — 12:00 Mdnt — 12:00 Mdnt —	3,000.00	
4th 8-hour period — 12:00 Mdnt — 8:00 A.M. —	1,000.00	
		$ 7,000.00
	Total	$21,610.97

Step 2 — Assess part of loss separately covered to policy which alone affords coverage.

Loss for first 24-hour period assessed to "Fire Group" — $5,198.00

"Fire Group" remaining limit $9,412.97 ($14,610.97 — $5,198.00) available for contribution in area of common coverage.

Step 3 — Contribution to area of common coverage on basis of available limits of liability.

Loss to area of common coverage is ($17,326.66 — $5,198.00) $12,128.66

	Limit of Liability	Loss
"Fire Group" (remaining limit)	$ 9,412.97	$ 6,955.88
"Boiler Group" limit	7,000.00	5,172.78
	$16,412.97	$12,128.66

Claim under each policy is:

"Fire Group"		
1st 24-hour period	$ 5,198.00	
Contribution to area of common coverage	6,955.88	
		$12,153.88
"Boiler Group"		
Contribution to area of common coverage		5,172.78
	Insured recovers	$17,326.66

Note: Example not intended to imply that loss under "Valued Form" of boiler-machinery policy must necessarily be adjusted on an "hourly" basis.

General Principle 1-G

Illustrative Problem (13) — Time element loss.

Coverage

"Fire Group"	$761,000.00 — 80% coinsurance clause
"Boiler Group"	Valued U and O — daily indemnity $5,500.00 Liability commences 1st Mdnt; limit loss $550,000.00

Other considerations — Time of occurrence 12:01 A.M.; plant operates twenty-four hours per day; occurrence causes 100% shutdown of operations.

Property

		Value	Loss
Business interruption			
Value		$1,128,055.00	
Period of suspension			
80 hours or 3⅓ days			
1st 24-hour period	$5,198.00		
2nd 24-hour period	5,198.00		
3rd 24-hour period	5,198.00		
4th 8-hour period	1,732.66		
			$17,326.66

Step 1 — Establish respective limits of liability.

		Limit of Liability
"Fire Group"		
Insurance	$761,000.00	
Loss	17,326.66	
Application 80% coinsurance clause		
$761,000.00/$902,444.00 of $17,326.66		$14,610.97
"Boiler Group"		
Insurance — $5,500.00/day from 1st Midnight		
1st 24-hour period — 12:01 A.M. — 12:00 Mdnt —	no coverage	
2nd 24-hour period — 12:00 Mdnt — 12:00 Mdnt —	$5,500.00	
3rd 24-hour period — 12:00 Mdnt — 12:00 Mdnt —	5,500.00	
4th 8-hour period — 12:00 Mdnt — 8:00 A.M. —	1,833.33	
		$12,833.33
	Total	$27,444.30

Step 2 — Assess loss separately covered to policy which alone affords coverage.
Loss for first 24-hour period assessed "Fire Group" — $5,198.00

"Fire Group" remaining limit $9,412.97 ($14,610.97 — $5,198.00) available for contribution in area of common coverage.

Step 3 — Contribution to area of common coverage basis of available limits of liability.
Loss to area of common coverage is ($17,326.66 — $5,198.00) $12,128.66

	Limit of Liability	Pays
"Fire Group" (remaining limit)	$ 9,412.97	$ 5,131.94
"Boiler Group" limit	12,833.33	6,996.72
	$22,246.30	$12,128.66

Claim under each policy is:

"Fire Group"		
1st 24-hour period	$5,198.00	
Contribution to area of common coverage	5,131.94	
		$10,329.94
"Boiler Group"		
Contribution to area of common coverage		6,996.72
	Insured recovers	$17,326.66

Note: Example not intended to imply that loss under "Valued Form" of boiler-machinery policy must necessarily be adjusted on an "hourly" basis.

General Principle 1-G

Illustrative Problem (14) — Boiler-machinery — fire overlap
Fire policies coverage is non-concurrent

Coverage

"Fire Group"

Building	$ 50,000.00
Building and contents	75,000.00
	$125,000.00

"Boiler Group"

Amount of Insurance	$100,000.00

Property	**Value**	**Loss**
Building	$ 90,000.00	$15,000.00
Contents	75,000.00	5,000.00
	$165,000.00	$20,000.00

Solution

Step 1 — Establish limits of liability of each group for contribution purposes.
The liability of the "Fire Group" policies is determined by order of precedence as established by General Principles 1-A through 1-G.

"Fire Group"			**Limit of Liability**
Building policy — primary insurance in accordance with Principle 1-A and Specific Principles — Fire-Fire.			
Entire building loss would be assessed to specific insurance			$15,000.00
Building and contents policy — excess insurance in accordance with General Condition 1.			
Building and contents value and loss	$165,000.00	$20,000.00	
Less value covered by primary insurance (building)	50,000.00		
Less amount assessed to primary insurance		$15,000.00	
Excess value and loss	$115,000.00	$ 5,000.00	
Limit of liability			$ 5,000.00
"Fire Group" limit of liability			$20,000.00
"Boiler Group"			
Amount of insurance	$100,000.00		
Loss	20,000.00		
Limit of liability			$20,000.00
			$40,000.00

Step 2 — Distribution of loss to each group.

	Limit of Liability	**Pays**
"Fire Group"	$20,000.00	$10,000.00
"Boiler Group"	20,000.00	10,000.00
	$40,000.00	$20,000.00

Distribution of the Fire Group's share of loss to their policy or group of concurrent policies —

	Limit of Liability	**Pays**
Building policy	$15,000.00	$ 7,500.00
Building and contents policy	5,000.00	2,500.00
	$20,000.00	$10,000.00

General Principle 1-G

Illustrative Problem (15) — Boiler-machinery overlap
Fire policies coverage is non-concurrent

Coverage

"Fire Group"

Building	$ 50,000.00
Building and contents	75,000.00
	$125,000.00

"Boiler Group"

Amount of insurance — (subject to $1,000.00 deductible clause)	$100,000.00

Property	**Value**	**Loss**
Building	$ 90,000.00	$15,000.00
Contents	75,000.00	5,000.00
	$165,000.00	$20,000.00

Solution

Step 1 — Establish limits of liability of each group for contribution purposes.

The liability of the "Fire Group" policies is determined by order of precedence as established by General Principles 1-A through 1-G.

"Fire Group"			**Limit of Liability**
Building policy — primary insurance in accordance with Principle 1-A and Specific Principles — Fire-Fire			
Entire loss would be assessed to specific insurance			$15,000.00
Building and contents policy — excess insurance in accordance with General Condition 1.			
Building and contents value and loss	$165,000.00	$20,000.00	
Less value covered by primary insurance (building)	50,000.00		
Less amount assessed to primary insurance		15,000.00	
Excess value and loss	$115,000.00	$ 5,000.00	
Limit of liability			$ 5,000.00
"Fire Group" limit of liability			$20,000.00
"Boiler Group"			
Amount of insurance	$100,000.00		
Loss	20,000.00		
Claim $20,000.00 less $1,000.00 or $19,000.00			$19,000.00
Limit of liability			$39,000.00

Step 2 — Assess loss separately covered to group which alone affords coverage.

The $1,000.00 not insured under the "Boiler-Machinery Group" is first paid by the "Fire Group" which alone affords coverage. The remaining limit of liability of the "Fire Group" contributes with the "Boiler Group" to pay loss to area of common coverage.

The amount of $1,000.00 is assessed to the "Fire Group."

CONTINUED

General Principle 1-G Illustrative Problem (15) — continued

Step 3 — Contribution to area of common coverage on basis of available limits of liability.
Loss to area of common coverage is $20,000.00 less $1,000.00 or $19,000.00

	Limit of Liability	Pays
"Fire Group" (remaining limit of liability)	$19,000.00	$ 9,500.00
"Boiler Group"	19,000.00	9,500.00
	$38,000.00	$19,000.00

Claim under each group is:
"Fire Group"

Amount of deductible	$ 1,000.00	
Area of common coverage	9,500.00	
	$10,500.00	$10,500.00

Distribution of the Fire Group's share of loss to their policy or group of concurrent policies —

	Limit of Liability	Pays
Building policy	$15,000.00	$ 7,875.00
Building and contents	5,000.00	2,625.00
	$20,000.00	$10,500.00

"Boiler Group"

Area of common coverage	$ 9,500.00
	$20,000.00

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Illustrative Problem (16) — Boiler-machinery — fire overlap
Fire policies coverage is non-concurrent

Coverage

"Fire Group"

Building	$ 50,000.00	— 80% coinsurance
Building and contents	75,000.00	— 80% coinsurance
	$125,000.00	

"Boiler Group"

Amount of insurance	$100,000.00

Property

	Value	Loss
Building	$ 90,000.00	$15,000.00
Contents	75,000.00	5,000.00
	$165,000.00	$20,000.00

Solution

Step 1 — Establish limits of liability of each group for contribution purposes.
The liability of the "Fire Group" policies is determined by order of precedence as established by General Principles 1-A through 1-G.

CONTINUED

General Principle 1-G Illustrative Problem (16) — continued

			Limit of Liability
"Fire Group"			
Building policy — primary insurance in accordance with Principle 1-A and Specific Principles — Fire-Fire.			
Under application of 80% coinsurance clause, limit of liability would be: $50,000.00/$72,000.00 of $15,000.00 or			$10,416.67
Building and contents — excess insurance in accordance with General Condition 1.			
Building and contents value and loss	$165,000.00	$20,000.00	
Less value covered by primary insurance (building)	50,000.00		
Less amount assessed to primary insurance		10,416.67	
Excess value and loss	$115,000.00	$ 9,583.33	
Under application of 80% coinsurance clause, limit of liability would be: $75,000.00/$92,000.00 of $9,583.33 or			$ 7,812.50
"Fire Group" limit of liability			$18,229.17
"Boiler Group"			
Amount of insurance		$100,000.00	
Loss		20,000.00	
Limit of liability			$20,000.00
			$38,229.17

Step 2 — Distribution of loss to each group.

	Limit of Liability	Pays
"Fire Group"	$18,229.17	$ 9,536.78
"Boiler Group"	20,000.00	10,463.22
	$38,229.17	$20,000.00

Distribution of the Fire Group's share of loss to their policy or group of concurrent policies —

	Limit of Liability	Pays
Building policy	$10,416.67	$ 5,449.59
Building and contents policy	7,812.50	4,087.19
	$18,229.17	$ 9,536.78

General Principle 1-G

Illustrative Problem (17) — Boiler-machinery — fire overlap
Boiler-machinery policy subject to a deductible
Fire policies coverage is non-concurrent

Coverage
"Fire Group"

Building	$ 50,000.00—80% coinsurance
Building and contents	75,000.00—80% coinsurance
	$125,000.00

"Boiler Group"

Amount of insurance	$100,000.00—$1,000.00 deductible

Property	Value	Loss
Building	$ 90,000.00	$15,000.00
Contents	75,000.00	5,000.00
	$165,000.00	$20,000.00

Solution
Step 1 — Establish limits of liability of each group for contribution purposes.
The liability of the "Fire Group" policies is determined in order of precedence as established by General Principles 1-A through 1-G.

			Limit of Liability
"Fire Group"			
Building policy — primary insurance in accordance with Principle 1-A and Specific Principles — Fire-Fire.			
Under application of 80% coinsurance clause, limit of liability would be: $50,000.00/$72,000.00 of $15,000.00			$10,416.67
Building and contents — excess insurance in accordance with General Condition 1.			
Building and contents value and loss	$165,000.00	$20,000.00	
Less value covered by primary insurance (building)	50,000.00		
Less amount assessed to primary insurance		10,416.67	
Excess value and loss	$115,000.00	$ 9,583.33	
Under application of 80% coinsurance clause, limit of liability would be: $75,000.00/$92,000.00 of $9,583.33 or			$ 7,812.50
"Fire Group" limit of liability			$18,229.17

"Boiler Group"

Amount of insurance	$100,000.00	
Loss	20,000.00	
Claim $20,000.00 less $1,000.00 or	19,000.00	
Limit of liability		$19,000.00
		$37,229.17

Step 2 — Assess loss separately covered to group which alone affords coverage.
The $1,000.00 not insured under the "Boiler-Machinery Group" is first paid by the "Fire Group" which alone affords coverage. The remaining limit of liability of the "Fire Group" contributes with the "Boiler Group" to pay loss to area of common coverage.

The amount of $1,000.00 is assessed to the "Fire Group."

CONTINUED

General Principle 1-G Illustrative Problem (17) — continued

Step 3 — Contribution to area of common coverage basis on available limits of liability.
Loss to area of common coverage is:
$20,000.00 less $1,000.00 or $19,000.00

		Limit of Liability	Pays
"Fire Group" (remaining limit of liability)		$17,229.17	$ 9,035.65
"Boiler Group"		19,000.00	9,964.35
		$36,229.17	$19,000.00

Claim under each group is:
"Fire Group"

Amount of deductible	$ 1,000.00		
Area of common coverage	9,035.65		
	$10,035.65		$10,035.65

Distribution of the Fire Group's share of the loss to their policy or group of concurrent policies —

	Limit of Liability	Pays
Building policy	$10,416.67	$ 5,734.66
Building and contents policy	7,812.50	4,300.99
	$18,229.17	$10,035.65

"Boiler Group"

Area of common coverage	$ 9,964.35
	$20,000.00

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Illustrative Problem (18) Fire-Fire coverage.

Coverage

A. Stock	$30,000.00
B. Contents, including improvements and betterments	20,000.00
C. Contents, exclusive of improvements and betterments	10,000.00
	$60,000.00

No coinsurance clause under any policy.

Property	Value	Loss
Stock	$60,000.00	$ 5,000.00
Furniture and fixtures	10,000.00	1,000.00
Improvements and betterments	2,500.00	500.00
	$72,500.00	$ 6,500.00

Solution

Primary insurance — Policy A

Stock loss is assessed to specific insurance in accordance with Principle 1-C.

Excess insurance — Policies B and C

Loss to property other than stock is distributed according to Principle 1-G-(1).

CONTINUED

General Principle 1-G Illustrative Problem (18) — continued

Step 1 — Establish limit of liability.

		Limit of Liability
Policy B, including improvements and betterments		
Insurance	$20,000.00	
Loss	1,500.00	
Limit of liability		$ 1,500.00
Policy C, excluding improvements and betterments		
Insurance	10,000.00	
Loss	1,000.00	
Limit of liability		1,000.00
		$ 2,500.00

Step 2 — Assess loss separately covered to policy which alone affords coverage.
Improvements and betterments loss is first assessed to Policy B which alone affords coverage and the remaining limit of liability participates with Policy C to pay loss to area of common coverage.

Improvements and betterments loss assessed Policy B.

Step 3 — Contribution to area of common coverage on basis of available limits of liability.
Loss to area of common coverage — $1,000.00

	Limit of Liability	Pays
Policy B (remaining limit of liability)	$1,000.00	$ 500.00
Policy C	1,000.00	500.00
	$2,000.00	$1,000.00

Total claim to each policy is:

Policy A		
Stock		$5,000.00
Policy B		
Improvements and betterments	$ 500.00	
Contents, other than stock and improvements and betterments	$ 500.00	$1,000.00
Policy C		
Contents, other than stock and improvements and betterments		500.00
		$6,500.00

General Principle 2-E

Installment-Sales or Deferred-Payment
Merchandise Insurance:

Illustrative Problem (1)

Coverage
Inland marine
Policy issued to vendor.

Installment-sales floater (dual-interest.)
$30,000.00 on the interest of the insured and of purchasers in merchandise sold by the insured under a deferred-payment or conditional-sales agreement.

Evidence of insurance issued by vendor to vendee.

Fire insurance
Policy issued to purchaser —
$5,000.00 on household furniture.

Property, location and cause.

Property damaged or destroyed	— Refrigerator which had been purchased under a conditional-sales agreement
Amount of loss	— $250.00
Location of loss	— Purchaser's residence
Cause of loss	— Fire

Solution

Distribution of loss is based on subdivision (1)-(a) of General Principle 2-E.
The loss is assessed to the installment-sales floater policy as primary coverage.

Note: With coverages outlined above the result would be the same in an "on-premises" or "off-premises" situation.

General Principle 2-E

Illustrative Problem (2)

Coverage
Inland marine
Policy issued to vendor.

Installment-sales floater (dual-interest.)

$30,000.00 on the interest of the insured and of purchasers in merchandise sold by the insured under a deferred-payment or conditional-sales agreement.

Certificate of insurance issued by vendor to vendee.

Fire insurance
Policy issued to purchaser —
$1,500.00 on tractor (Farm Form)

Property, location and cause.

Property damaged or destroyed	— Tractor which had been purchased under a conditional-sales agreement
Amount of loss	— $2,500.00
Location of loss	— Purchaser's farm
Cause of loss	— Fire

Solution

Distribution of loss is based on subdivision (1)-(b) of General Principle 2-E which provides loss be divided in accordance with the Limit of Liability Rule (General Condition 2).

		Limit of Liability	Pays
Inland marine			
Coverage	$30,000.00		
Loss	2,500.00		
Limit of liability		$2,500.00	$1,562.50
Fire insurance			
Coverage	1,500.00		
Loss	2,500.00		
Limit of liability		1,500.00	937.50
		$4,000.00	$2,500.00

Note: With coverages outlined above the result would be the same in an "on-premises" or "off-premises" situation.

General Principle 2-E

Illustrative Problem (3)

Coverage
Inland marine
Policy issued to vendor.

Installment-sales floater (dual-interest).

$30,000.00 on the interest of the insured and of purchasers in merchandise sold by the insured under a deferred-payment or conditional-sales agreement.

No evidence of insurance issued by vendor to vendee.

Fire insurance — homeowners MIC 1 or 2
Policy issued to purchaser —
$8,000.00 on unscheduled personal property.

Property, location and cause.

Property damaged or destroyed	—	Television set which had been purchased under conditional-sales agreement.
Amount of loss	—	$500.00
Location of loss	—	Purchaser's residence
Cause of loss	—	Fire

Solution

Distribution of loss is based on subdivision (2)-(a) of General Principle 2-E.

Loss is assessed to the homeowners policy as primary coverage.

General Principle 2-E

Illustrative Problem (4)

Coverage
Inland marine
Policy issued to vendor.

Installment-sales floater (dual-interest).

$30,000.00 on the interest of the insured and of purchasers in merchandise sold by the insured under a deferred-payment or conditional-sales agreement.

No evidence of insurance issued by vendor to vendee.

Fire insurance — homeowners MIC 5
Policy issued to purchaser —
$15,000.00 on unscheduled personal property xxx while in all situations anywhere in the world. (10% of the limit of liability for coverage C for unscheduled personal property ordinarily situated throughout the year at residences other than the described dwelling.)

Property, location and cause.

Property damaged or destroyed	— Riding power lawn mower which had been purchased under a conditional-sales agreement.
Amount of loss	— $500.00
Location of loss	— Purchaser's secondary residence
Cause of loss	— Fire

Solution

Distribution of loss is based on subdivision (2)-(b) of General Principle 2-E, which provides loss be divided in accordance with the Limit of Liability Rule (General Conditon 2).

Inland marine		Limit of Liability	Pays
Coverage	$30,000.00		
Loss	500.00		
Limit of liability		$ 500.00	$250.00
Fire insurance — homeowners MIC 5			
Coverage — secondary residence	1,500.00		
Loss	500.00		
Limit of liability		500.00	250.00
		$1,000.00	$500.00

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General Condition 1
See General Principle 1-B — Illustrative Problem (2).

PART II

SPECIFIC PRINCIPLES
CASUALTY - CASUALTY

Overlap of first-party property coverage situations occurring between or among casualty coverages only are to be resolved in accordance with General Principles 1-A through 1-G; 2-A through 2-E; General Conditions and Definitions.

PART II

SPECIFIC PRINCIPLES
FIRE - FIRE

Overlap of first-party coverage situations occurring between or among fire coverages only are to be resolved in accordance with General Principles 1-A through 1-G; 2-A through 2-E; General Conditions; Specific Principles and Definitions.

Explanatory Notes and Examples

Under overlapping situations between fire-fire coverages:

1. A building is construed to be an object.
2. The following are construed to be a group of related articles or objects and come within the provisions of General Principle 1-C or 1-D:
   (a) stock (merchandise),
   (b) machinery,
   (c) furniture and fixtures,
   (d) improvements and betterments.
3. Coverage on any combination of the above in 1 or 2 and coverage on CONTENTS or on personal property are not construed to be coverage on a group of related articles or objects, but come within the provisions of General Principle 1-E or 1-F.

PART II

SPECIFIC PRINCIPLES
INLAND - INLAND

Overlap of first-party coverage situations occurring between or among inland coverages only are to be resolved in accordance with General Principles 1-A through 1-G; 2-A through 2-E; General Conditions; Specific Principles and Definitions, subject to the following specific exceptions:

1. Policies issued to common or contract carriers covering their legal liability for cargo shall be deemed to insure independently of any policy issued to a shipper, consignee, owner or agent to the same extent as if no other insurance existed, subject, nevertheless, to pro rata contributions from and with other similar policies issued to the carrier.

2. Overlapping insurance shall be deemed to exist in the case of termination, by expiration or cancellation, of a motor truck cargo liability policy with Interstate Commerce Commission and State Endorsement(s) expiring subsequent thereto, and a succeeding motor truck cargo liability policy whose ICC and State Endorsement(s) attach upon the termination dates of the endorsement(s) attached to the succeeded policy. In the case of such overlapping insurance between a succeeded insurer's unexpired ICC and State Endorsement(s) and a succeeding insurer's ICC and State Endorsement(s) whether issued or not: It is agreed that the succeeding insurer shall assume any liability under ICC or State Endorsement(s) from the date of attachment of the succeeding policy but not in excess of the limits stated in the ICC or State Endorsement(s).

3. Overlapping insurance shall be deemed to exist whenever insured loss or damage may have occurred during continuous coverage under successive policies of two or more companies and the date of loss cannot be determined but may be presumed to have been during the existence of such policies, the loss shall be prorated between the companies on the basis of time each company was at risk prior to discovery of loss, the total of such time in no case to exceed thirty-six months nor to extend in the case of missing property beyond the time the property was last seen nor in the case of damage beyond the time the property was last known to be in sound condition.

4. When a furriers customers policy has been extended to cover excess legal liability and the amount charged the bailor for storage or services and insurance was predicated on the declared valuation stated in the receipt issued by the furrier for the article lost or damaged, the bailor's insurer shall accept in final settlement the amount of the loss or damage not exceeding such declared valuation, unless such loss or damage was due to unauthorized use or disposition of the article by the bailee.

   When one bailee sends property to another bailee, insurance covering the bailee in possession of the property at the time of the loss is to be considered primary in relation to the first bailee's insurance. The measure of liability under the insurance declared to be primary shall be determined as follows notwithstanding any limitation of subsequently determined excess liability stated in the original bailee's contract of bailment with the owner or agent:

   A. If a receipt shall have been issued by the bailee in custody, with a declared valuation, or stated limitation of liability, the measure of liability shall be such declared valuation, or stated limitation, but in no event exceeding the actual cash value of the property.

   B. If a receipt shall have been issued by the bailee in custody with no declared valuation, or no stated limitation of liability, or if no receipt shall have been issued, the measure of liability shall be the actual cash value of the property, unless there is in effect a signed contract or other agreement in writing between the parties specifically providing for a lesser liability between the parties.[5]

CONTINUED

[5]See Examples.

EXAMPLES — Specific Principle 4

(Inland-Inland)

Example 1. A coat worth $3,000 is stored by "A" with the furrier who issues a fur storage receipt with a declared value of $500. "B" asks the furrier to manufacture a coat like "A's". The furrier agrees, and without "A's" knowledge or consent removes her coat from the storage vault to his workroom where it is used as a model, and while there it is stolen. This is an unauthorized use of the coat, and the furrier should be liable for the full value.

Example 2. The same coat is stored under a $500 receipt, and without "A's" knowledge or consent, the furrier removes the coat from the storage vault for display or exhibition and, while on a form in the store or window, it is stolen. This is an unauthorized use of the coat and the furrier should be liable for full value.

Example 3. The same coat is stored under a $500 receipt, and repairs are ordered and agreed upon. The receipt bears a statement: "All work done on our premises." The coat, without the knowledge of "A," is sent to another and independent contractor where the work is to be done. It is damaged by fire on these premises and is a total loss. This is an unauthorized use of the coat and the furrier should be liable for the full value for such a breach of contract.

Example 4. Assuming the same bailment, the furrier, being in financial difficulties, takes the coat to a pawnbroker, where it is pledged for a loan. "A" should recover damages (i.e., cost of replevin, et cetera) up to the full value from the furrier for such unauthorized use or disposition of the property.

Note: Where the personal property insurer does not control the right of recovery against the furrier, due to insufficient insurance, and a recovery is made by the owner in excess of the receipt valuation, the property insurer should refund to the excess liability insurer such amount as it has received in excess of the receipt valuation.

DEFINITIONS
of
Insurance Terms for the
Purpose of these Guiding Principles

AFFIXED — A television aerial or antenna is affixed to the building or outbuilding when substantially attached with the weight of the antenna borne principally by the building.

BLANKET — (Casualty) — When a policy covers at a stated location and any number of other unstated or non-scheduled locations as well, it is said to be "blanket."

(Fire and Inland Marine) — When a single amount of insurance covers several unrelated items, the policy is said to be written "blanket."

Example

One amount of insurance covering two or more buildings or a building and its contents.

CONCURRENT POLICIES — Concurrent policies are those insuring the same interest and the identical property involved in the loss or claim, which divide the risk of a specific major hazard between or among policies or companies, even though policy dates and amounts vary and certain policies contain reduced rate contribution, average, coinsurance, or deductible clauses, while others do not.

Examples

Two or more standard fire policies.
Two or more contractors installment floaters.
Two or more furriers customers policies.
Two or more mercantile theft policies.

A policy(ies) providing coverage under more than one underwriting classification; i.e., casualty--fidelity--fire--inland marine or multiple-line, shall **not** be considered concurrent to policy(ies) limited to one classification.

Examples

A standard fire policy and a homeowners or MIC.
A boiler-machinery and a fire policy.
A special multi-peril motel policy and a mercantile theft policy.

EXCESS PROVISION — A provision in a policy which stipulates that the policy is liable only after other insurance, covering the risk, has been exhausted — not to be confused with "pure excess" insurance. However, depositors forgery insurance which by its terms is primary to employee dishonesty coverage shall remain so.

FLOATER POLICY (FLOATING) — A policy under the terms of which protection follows movable property, covering it wherever it may be.

Example

A policy on tourist's baggage.

LIMIT OF LIABILITY RULE — As described in **General Condition 2.**

LIMITED PURPOSE — A policy(ies) is said to be for a more limited purpose when it is designed to provide coverage for a specific exposure as contrary to one which includes that exposure and other exposures as well.

Example

A trip transit policy is a more limited purpose policy than a household furniture policy with off-premises coverage.

LOCATION — A site specifically defined in the policy.

OVERLAPPING — When two or more types of insurance cover the same risk, the insurance is said to be "overlapping."

RETROSPECTIVE RATING — A plan under which the final premium for a risk is adjusted on basis of its own loss experience during the policy period.