

SISL NEWS

INSURANCE TO VALUE – KNOWING THE LAWS OF THE GAME TO KEEP YOUR SCORE!

CO-INSURANCE; BLANKET POED AND MARGIN CLAUSES

Our ClubPac golf program policy contains all three of these clauses and there still seems to be some misunderstanding on how these clauses apply.

A BRIEF HISTORY:

Originally policies were issued and rated on a scheduled basis, i.e. each building had its own value.

Co-insurance was easy; it was calculated on each item separately.

If there was damage to both building and its contents the coinsurance was calculated on each separately.

Blanket Policies & Limits evolved when there was more than one property or location to be insured, the solution was to provide blanket coverage on contents, which gradually became blanket Property of Every Description (POED) on everything often including even the Business Interruption limits.

Unfortunately over time, the effectiveness of this coverage has been diluted as values were reviewed less frequently and insureds slipped into under-insurance on the assumption that all their property would never become the subject of a loss and just selected a maximum amount that they could foresee being the result of a loss.

Two notable cases in Canada were resolved in British Columbia which will be informative for other courts in Canada:

- In one case, the Insured had a multi-million dollar risk involving over 20 locations and on the Statement of Values (SOV) there was no mention a small building at one location. Of course there was a fire and this structure was destroyed. With a blanket POED and Stated Amount co-ins. the Insured claimed that he was covered.

The judge ruled that failure to show a value for the building on the SOV indicated an “intent not to insure it”.

- The second case also involved a large schedule with many locations and a single limit policy (including Business Interruption). On the SOV the Insured showed the maximum potential Business Interruption loss at a particular location to be \$200,000.

After a fire at that location there was a claim for actual losses in excess of \$1,000,000, again on the basis of Blanket POED coverage.

The lower court ruled that the claimant could not state \$200,000. on the SOV and expect to receive more in a claim, and the Appeals Court upheld the decision and even commented that the understated SOV might even be considered as “fraudulent misrepresentation” which could void the whole contract.

Both of these rulings effectively impose **100% margin clauses** to the policy and they appear to contradict the concept of “Blanket Coverage” as the insurance industry has grown to understand it.

The world has changed and Blanket POED is no longer an excuse for under insurance of property and business interruption values.

In response to these court decisions, astute underwriters have started to limit their maximum exposure on any one item to the amount stated on the SOV.

THE CLUBPAC PROGRAM:

Our program offers clients with the ability to select the limits they require cover for on the Statement of Values.

Our policy provides a specific exclusionary endorsement that describes the types and classes of property which insureds do not wish to insure.

The bottom line is that INSURANCE TO VALUE is now more important than at any time in the past 20+ years. If the Insured has declared full value on every item on the SOV which they wish to insure and has insured to the full total declared value then there is no problem. Neither the coinsurance or the margins clause has any serious effect.

But ...

Underinsurance will result in potentially both Coinsurance and Margin limit penalties.