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# Property Loss Adjusting

## Volume I

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insured's premium was based. The theory is that if the insured is paying the premium for \$200,000 coverage, then in the event of loss, \$200,000 should be paid.

**Application.** The valued policy laws usually apply only in the event of a total loss to the building. They do not normally apply to partial losses. They also usually apply only to buildings and structures, not to personal property losses. Furthermore, the application of valued policy laws is limited to certain causes of loss, such as fire. Some states add other causes of loss to which the valued policy law applies.

**Jurisdictions With Valued Policy Laws.** Because of the variation among valued policy laws, the law in the jurisdiction where a specific loss occurs must be consulted. Valued policy laws are in effect in Arkansas, Florida, Georgia, Kansas, Louisiana, Minnesota, Mississippi, Missouri, Montana, Nebraska, New Hampshire, North Dakota, Ohio, South Carolina, South Dakota, Tennessee, Texas, West Virginia, Wisconsin, and by election of the insured and payment of an additional fee, in California.

**Incentive for Fraud.** Valued policy laws violate the principle of indemnity, whenever the coverage exceeds the value, because insureds can emerge in better financial condition than they were in prior to the loss. Insurers are deeply concerned about the increased potential for fraud whenever valued policy laws are in effect. Under such laws, an insured may have greater financial incentive to commit arson. To counteract this possibility, insurers must be vigilant in writing policies so that they do not result in overinsurance.

## OTHER INSURANCE

In property insurance, it is often true that more than one insurance policy covers a loss. Overlapping coverages may exist for part of or for an entire claim. Overlapping coverage usually occurs inadvertently. An insured may forget to cancel an existing policy after a new one has been acquired. Coverage may also exist under general policies, such as the HO-3 or BPP, for property covered under specific floaters. In other cases, a mortgage company and a property owner may separately insure the owner's property. These situations are not the norm, but they are not unheard of. The other possibility is that the insured has intentionally obtained multiple coverage. This is an almost certain sign of attempted fraud, and should be thoroughly investigated.

In investigating any claim, an adjuster should attempt to uncover overlapping coverages. The first place to check is with the insured. The

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adjuster should simply ask the insured if there is more than one policy covering the loss. Most insureds will tell the adjuster the truth, if other insurance is involved due to inadvertence. If the adjuster feels that the insured is not revealing the truth, the adjuster must investigate further. The adjuster can contact other parties associated with the claim (such as a contractor, a jewelry appraiser, or a retail store where articles were purchased) to question whether they have been contacted by any other insurance company. If another company has made contact regarding the same claim, it is likely that overlapping coverages are involved.

A claims investigation may reveal other indicators that lead the adjuster to suspect that there is other insurance. One indicator would be if the insured's property is grossly underinsured by one policy. Another indicator might be if the insured reveals the "wrong" agent or broker servicing the policy—an agent who the adjuster's company does not deal with. If these indicators appear, it is important for the adjuster to investigate the case to determine what other insurance might be involved.

### Types of Other Insurance Clauses

When the claims adjuster finds that there is other insurance, it is necessary to examine the other insurance conditions of the policy. These conditions normally provide for the following two methods of dealing with overlapping coverages: (1) primary/excess insurance, and (2) proportional (pro-rata share).

**Primary/Excess.** The insurance policies may actually indicate that one coverage is the primary coverage. Primary coverage means that the payment of the claim will be paid from that policy first until the limits are exhausted. The excess coverage then pays the amount over the primary coverage.

For example, Steve Mitchell has property insured under two policies. Policy A with a \$6,000 limit states that it is primary coverage; Policy B states that it is excess. Steve has a \$10,000 loss covered by both policies. Policy A will pay out its \$6,000 policy limit of coverage; Policy B will then pay the \$4,000 amount of the loss over \$6,000.

**Types of Excess Insurance.** Excess insurance, in this context, means insurance that is stated to be excess over other valid and collectible insurance. An *excess-of-other-insurance clause* is distinct from a *true excess policy*. A true excess policy covers losses only over some large deductible amount, usually in the six- or seven-figure range, and never provides coverage for smaller losses, regardless of whether

they are covered elsewhere. A policy with an excess-of-other-insurance clause is a primary policy, which only pays after the coverage of other primary policies is exhausted.

**Policies Presumed Primary.** Very few insurance policies explicitly state that their coverage is primary. However, the general rule is that coverage is primary unless the policy states otherwise. In the absence of an other insurance condition indicating the coverage is excess or pro rata, the claims adjuster should treat existing coverage as primary. If one policy states that it is pro rata and the other policy states it is excess, the excess clause is usually given effect and the pro-rata policy becomes primary.

**Deductibles.** Adjusters must also deal with situations of primary/excess application of deductibles. Where there is primary/excess coverage, the excess coverage can, at times, pay a difference in the deductible amounts. For example, suppose ABC Insurance Company's policy states that its coverage is excess and has a \$100 deductible, while XYZ Insurance Company's policy does not have an other insurance condition and its policy has a \$250 deductible. In the event of a loss, XYZ's coverage would be primary and its obligation would be to pay the adjusted claim minus the \$250 deductible. ABC's obligation would be to pay the difference in the deductibles, \$250 - \$100, or \$150. ABC would only be obligated to pay the difference in the deductibles when, as in this example, ABC's deductible is smaller than XYZ's. If XYZ had a smaller or the same deductible, ABC would have no obligation for payment of any part of the claim.

**Proportional (Pro-Rata).** The other common method of dealing with overlapping coverages is proportional or pro-rata share. With this method, insurers contribute to the loss payment in the proportion to which they contribute to the total amount of coverage purchased. For example, suppose Honest Insurance Company has a policy with \$40,000 coverage and Truthful Insurance Company has a policy on the same property with \$60,000 coverage. The insured suffers a covered loss of \$10,000. Honest would owe:

$$\frac{\$40,000 \text{ (Its amount of coverage)}}{\$100,000 \text{ (Total amount of coverage: } \$40,000 + \$60,000)}$$

or

40%, 4/10, or .40 of the loss.

$$40\% \times \$10,000 = \$4,000$$

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Truthful would owe:

$$\frac{\$60,000 \text{ (Its amount of coverage)}}{\$100,000 \text{ (Total amount of coverage: } \$40,000 + \$60,000)}$$

or

60%, 6/10, or .60 of the loss.

$$60\% \times \$10,000 = \$6,000$$

The combined payment of the companies equals the total payable claim of \$10,000. The insured does not collect anything more than the amount of the loss.

Suppose that Mark and Cindy Wilkinson are insured by two homeowners insurance policies. Both policies have other conditions indicating that losses must be adjusted using the proportional share method. The Wilkinsons have \$75,000 coverage with Company A and \$25,000 coverage with Company B. Both insurance policies provide coverage for a claim of \$12,000.

Company A owes:

$$\frac{\$ 75,000}{\$100,000} \text{ or } .75 \times \$12,000 = \$9,000$$

Company B owes:

$$\frac{\$ 25,000}{\$100,000} \text{ or } .25 \times \$12,000 = \$3,000$$

**Other Proportional Sharing.** Two other, less common methods of proration are (1) payment by equal shares and (2) payment by amounts payable. These methods only apply when the other insurance clause so indicates.

**Payment by Equal Shares.** Under payment by equal shares, the loss is paid equally by both policies until one policy is exhausted; then the other policy alone pays. Consider the Wilkinson's coverage for losses of \$40,000 and \$60,000. The \$40,000 loss would be shared equally (\$20,000 each) by Company A and Company B. On a \$60,000 loss, the two companies would equally share the loss up to \$50,000, at which point Company B's coverage is used up. Company A would then pay the remaining \$10,000 of the loss.

**Payment by Amounts Payable.** Payment by amounts payable requires separate analysis of the amounts that would be paid by each insurer as if it alone applied. Each insurer pays a portion of the loss equal to what it would separately pay, divided by the total of the

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separate coverages. For example, with the Wilkinson's coverages and a \$40,000 loss, Company A would pay \$40,000 and Company B would pay \$25,000. They would share the loss in the following proportions:

Company A:

$$\frac{40,000}{40,000 + 25,000} \times 40,000 = 24,615$$

Company B:

$$\frac{25,000}{40,000 + 25,000} \times 40,000 = \underline{15,385}$$

Total: 40,000

When both insurers fully cover the loss, this method results in an equal split.

**Prorating Deductibles.** Policy deductibles, in addition to loss payment, are proportionally split in cases of overlapping coverage. If Company A has 3/4 of the coverage, it would subtract 3/4 of the deductible amount from its claim payment. Company B would subtract 1/4 of the deductible amount when it carries 1/4 of the total coverage.

The deductible application follows the straight proportional method unless the two companies have different deductible amounts. Suppose the insured has a policy with Company X with a \$100 deductible, and with Company Y on the same property with a \$250 deductible. Both policies have other insurance conditions calling for proportional share settlement. The Company X policy has \$10,000 coverage; the Company Y policy has \$90,000 coverage.

The two companies would start off with a proportional share of the common deductible, calculated as above. The common deductible is the smallest deductible amount that the two companies share. In this case, the common deductible would be \$100; both companies have a deductible of at least this amount. The adjuster would apply the proportional share computation as earlier computed:

Company X's deductible would be:

$$\frac{\$10,000 \text{ (Its coverage)}}{\$100,000 \text{ (Total coverage } \$90,000 + \$10,000)} = 10\%$$

or

1/10 or .10

10% of \$100 deductible = \$10

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Company Y's deductible would be:

$$\frac{\$90,000 \text{ (Its coverage)}}{\$100,000 \text{ (Total coverage: } \$90,000 + \$10,000)} = 90\%$$

or

$$9/10 \text{ or } .90$$

$$90\% \text{ of the common } \$100 \text{ deductible} = \$90$$

In addition to Company Y's proportional share of the common deductible, it would also be able to subtract the additional unshared deductible amount from the loss. The additional deductible amount for Company Y would be \$250 (Company Y's total deductible) - \$100 (common deductible) = \$150. Company Y would then have a total deductible applicable to the claim of \$240 (\$90 + \$150). Company X would apply a \$10 deductible to its claim payment. The insured would be subject to total deductibles of \$250, an amount equal to the largest deductible on any policy.

It is fortunate that a situation in which the proportional share method must be applied with two different deductibles does not frequently arise. When it does, the proper claim settlement can be calculated with a little time, patience, and the proper understanding of the principles involved.

**Both Stated To Be Excess.** Both insurance policies sometimes contain an other insurance condition stating that their coverage is excess. In this situation, the coverage reverts to a proportional share method of contribution.

### Disagreements Over Other Insurance

There are times when insurance companies disagree as to each one's obligation for payment when there is overlapping coverage. There are several procedures that may be used to resolve these differences.

**Compromise and Arbitration.** The first and most common approach is an agreement of compromise between the two companies. If the disagreement is particularly severe, as is often the case when large amounts of money are involved, it is possible to resolve it in special arbitration. Special arbitration is discussed in detail in Chapter 5.

**Guiding Principles.** Another approach to resolving overlapping coverage problems is through application of the Guiding Principles, excerpts from which are found in the Appendix to this chapter. The Guiding Principles were promulgated by industry-wide associations

in the 1960s to help resolve conflicts among multiple insurers covering the same loss.

**Application of Guiding Principles.** The Guiding Principles apply when the other insurance clauses in policies that cover a loss are contradictory, or when there are no other insurance clauses. Thus, the Guiding Principles operate only when (1) there is more than one policy covering a loss and (2) the other insurance clauses of the policies do not resolve how to apply the respective coverages.

**Priority of Policies.** The Guiding Principles set forth when policies are to be primary to, or excess over, one another. They also provide a method of proration for policies that are neither primary nor excess to one another. The listings of policy priority, as primary or excess, are set forth for two different situations: (1) when the policies cover the same property and same interest—for example, two homeowners policies covering the same insured and same home; and (2) when the policies cover the same property but different interests—for example, a homeowners policy and a dry cleaners policy that each cover clothes of the homeowner destroyed at the cleaners.

In establishing priority, the Guiding Principles make policies that cover more specifically described property, at more specifically described locations, primary over more general policies. Paragraph 1 of the Guiding Principles, applicable to policies covering the same property and same interest, sets forth a listing of policy priorities in subparagraphs 1.A through 1.F.

When policies are considered to be at the same level of priority, proration is made according to subparagraph 1.G and general condition 2. Proration is *not* done according to the limits of insurance, but by the amounts payable method previously described.

**Disputes Over the Guiding Principles.** The Guiding Principles are complex, and adherence to them is voluntary. A local office of Insurance Arbitration Forums, Inc., can advise an adjuster as to whether a particular company supposedly follows the Guiding Principles. Unfortunately, because the Guiding Principles are complex, many adjusters will claim to disagree, or not understand, when the result indicated by the Guiding Principles is unfavorable to them. General condition 9 of the Guiding Principles provides: "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."

The last sentence of this condition sets forth an important



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adjusting principle. The insured should not suffer because of disagreement among insurers. The insured should be paid promptly, under an agreement by which such payment will not be construed as a waiver of the right of the paying company to seek reimbursement from another insurer.

**Resolution In Court.** The ultimate procedure for resolving disputes between companies can be in a court of law. Although this method is relatively rare, it is sometimes necessary when the dollars involved are large. Unfortunately, resorting to the courts for a resolution can be a highly uncertain option because the adjuster can never be sure how the court will decide. Courts have been extremely inconsistent in their treatment of overlapping coverage.

### SUMMARY

The amount of recovery on a loss is of utmost importance to the insured. It is also the issue to which all of the adjuster's efforts are ultimately directed. Certain provisions affecting loss settlement can be applied objectively and mechanically, such as application of deductible or special limits. Other provisions, such as determination of value for settlement or coinsurance purposes, require the adjuster to exercise judgment and to investigate the facts.

The insured must be given a clear and thorough explanation of all provisions and circumstances affecting the amount of the loss settlement. This is not possible unless the adjuster has command of these issues. Loss settlement provisions are an area in which the adjuster's professional expertise must be unquestionable.

# APPENDIX

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## The Guiding Principles

### 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<sup>1</sup> 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 on insurance, 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<sup>2</sup> 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,<sup>3</sup> 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.

# **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<sup>4</sup> rated policies, occurring on and after November 1, 1968.

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

## **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,<sup>5</sup> shall be set aside and be inoperative to the extent that it is (they are) in conflict with the purpose of these

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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.

### 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<sup>6</sup> shall be primary to any other insurance. (See Notes 1 and 2 below)
  - 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<sup>7</sup> (See Notes 1 and 2 below)
  - 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.<sup>8</sup> (See Notes 1 and 2 below)
  - 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. (See Notes 1 and 2 below)
  - 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. (See Notes 1 and 2 below)
  - F. Insurance without designation of location and not specific as to an article or object or as to group or class of related

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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<sup>8</sup> (other than peril) to which the insurance applies shall be primary. (See Notes 1 and 2 below)

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<sup>9</sup> 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. (See Notes 1 and 2 below)

Note 1. In overlapping situations involving boiler-machine-ry policies, classifications "1-C," "1-D," "1-E" and "1-F" shall not consider other insurance primary. Therefore,

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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.

### 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

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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.

### 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

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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. 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



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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."

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<sup>10</sup> 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<sup>11</sup> to the building or to an outbuilding.

Fuel.

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Laundrying 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.

**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 other 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.

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**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.

## Appendix Notes

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1. Wherever the term *policy* is used, it shall be construed to include fidelity bonds, certificates or certifications of insurance.
2. See Definitions.
3. Fidelity wherever used in these Guiding Principles shall not include surety or public official statutory or qualifying bonds.
4. See Definitions.
5. See Definitions.
6. See Definitions.
7. See General Condition 2.
8. See Definitions.
9. See General Condition 2.
10. See Definitions.
11. See Definitions.