

MISCELLANEOUS PROPERTY DAMAGE INSURANCE

BY

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Property Damage insurance, as such, needs no introduction to the insurance world, inasmuch as certain types of this form of coverage have been successfully underwritten in this country for many years. Teams Property Damage insurance and Automobile Property Damage insurance date back for a quarter of a century, or so, and likewise, Elevator Property Damage insurance has been written for the past decade. Moreover, this type of coverage has been provided in the past as an integral part of the coverage under certain forms of insurance, such as Steam Boiler insurance, Engine and Flywheel insurance, Aircraft insurance, and Sprinkler Leakage insurance.

It is only within the past year or two, however, that attention has been directed toward the extension of Property Damage insurance in other fields, to supplement the various forms of Public Liability insurance already existent. A Public Liability policy provides indemnity on account of the legal liability of the assured for bodily injuries sustained by members of the public. However, it often happens that the same accident producing the bodily injuries will also cause considerable property damage for which the assured is equally liable, and yet such damage is not covered under the Public Liability policy. Inasmuch as this condition has often been the cause of dissatisfaction on the part of the policyholder, it was natural that there should have been a growing demand for this additional coverage. In recognition of this demand, therefore, the insurance carriers through the National Bureau of Casualty and Surety Underwriters, set about, in the latter part of 1922, to develop the necessary underwriting rules, policy forms and rates for the so-called miscellaneous lines of Property Damage insurance. These include Manufacturers' and Contractors' Property Damage insurance, Owners', Landlords' and Tenants' Property Damage insurance, Residence, Farm and Private Estate Property Damage insurance, Theatre Property Damage insurance, Owners' or Contractors' Protective Property Damage insurance and a revised form of Elevator Property Damage insurance.

At this point it might be well to call attention to the fact that in the past, Elevator Property Damage insurance, as generally written, has covered not only damage to the property of persons other than the assured but has also included coverage on the elevator itself and the elevator shaftway, in the event of damage due to the collision of the elevator with another object. In other words, the so-called Elevator Property Damage insurance was in reality a combination of Elevator Property Damage and Collision coverage. The desirability of breaking up the coverage formerly offered, into two distinct forms, Elevator Property Damage insurance and Elevator Collision insurance, was appreciated and consequently it is now possible to write straight Elevator Property Damage insurance without including the collision features. The present coverage afforded under an Elevator Property Damage contract is broader than that offered under the other forms of Property Damage insurance since it includes damage to property (other than that of the assured) in the care or custody of the assured or his employees. It should be noted, however, that Elevator Collision insurance may be written only when concurrent Elevator Public Liability insurance and Elevator Property Damage insurance are carried in the same company. Moreover, the Collision insurance does not cover loss of use.

In view of the purpose for which the various lines of Property Damage insurance were designed, it was stipulated at the outset that in all cases where this form of Property Damage insurance was desired it would also be necessary to carry concurrent Public Liability insurance. In this connection it was felt that probably the most satisfactory means of providing Property Damage insurance would be by means of a certificate attached to the Public Liability policy contract. It is interesting to note that the carrying of concurrent Teams Public Liability insurance is a necessary prerequisite to the issuance of a Teams Property Damage contract, and also it is considered good underwriting to usually require that concurrent Automobile Public Liability insurance be carried before Automobile Property Damage insurance will be written.

It was also recognized that this new form of Property Damage insurance should be so developed that it would not conflict with lines of insurance already in existence. The standard form of coverage, therefore, specifically excludes coverage for property

damage if due to causes which are properly the subject of an individual form of Property Damage insurance, such as Elevator Property Damage insurance, Aircraft insurance, Auto Property Damage insurance, Steam Boiler insurance, Engine and Flywheel insurance and Electrical Machinery insurance.

In further respect to the coverage to be afforded it was formulated as a general rule that the standard form of policy would not include coverage for damage to the property of the assured, or to property leased, occupied, used by or in the care or custody of the assured or any of his employees. This standard exception clause is modified in the case of Elevator Property Damage insurance, as already pointed out, in that property in the care or custody of the assured is covered. Under both the Teams and Automobile Property Damage contracts the exclusions are similar to those expressed in the standard clause above.

The standard form of coverage also includes liability for loss of use, but excludes contractual liability for property damage or loss of use. Contractual Property Damage insurance, including loss of use, may be written, however, under a special form of contract.

There was considerable discussion as to the desirability of including coverage on property damage if due to fire. It must be realized that it is only insofar as the legal liability of the assured for damage to the property of the public is concerned that the fire hazard need be taken into consideration. It was felt by some that this constituted a very serious hazard and should not be covered under the Property Damage contract, especially since such inclusion might prove an incentive for fire insurance companies to exercise their subrogation rights more frequently than heretofore, and thus react to the very distinct disadvantage of the casualty companies. On the other hand, it was pointed out that as a matter of fact, in the majority of risks, the hazard due to this source would be negligible and furthermore in the case of those risks which did contain a real fire hazard, the fact would be fully recognized in determining the rate for that class of risks. Moreover, this constituted an insurable hazard for which coverage would be desired by the policyholder in order to provide himself with complete protection. It was finally decided to make no exclusion on account of property damage due to fire, for which the assured might be held legally liable.

In the case of certain classes of risks there is considerable hazard from the standpoint of Property Damage insurance due to the likelihood of an explosion. In other risks, particularly contracting risks, there is often found a very real hazard due to the chance of causing the collapse or undermining of adjoining property. Consequently, it was felt necessary to provide coverage for such risks on two bases,—either complete coverage, including the hazards due to the explosion or building collapse features, or on a limited coverage basis, excluding liability for property damage due to either or both of these causes.

The standard limit of insurance under the Property Damage contract is \$1000 for any one accident, and no contract for Property Damage insurance shall be written at a lower limit than this. It is possible to issue insurance at higher limits, however, subject to the provision that the limit of insurance shall not exceed the gross limit of the concurrent Public Liability insurance policy. It is interesting to note that the Property Damage contract provides continuous and complete coverage, subject, of course, to the policy limit for any one accident, throughout the term of insurance, as stated in the contract, regardless of the number of accidents which may occur. In this respect it follows the Public Liability insurance contract rather than the Fire insurance contract, for example.

The question of providing deductible average coverage under the Property Damage contract was also the subject of considerable debate. Inasmuch as Property Damage insurance will be in a more or less experimental stage for some time to come—so far as rates are concerned—it was deemed advisable to provide no definite set of rules or rates for this particular feature for the present. However, in the event that such coverage is desired it will be taken care of by special rate consideration based upon the merits of the individual case. If in the future the demand for deductible average Property Damage insurance becomes considerable, it is contemplated that the necessary rules and rates may then be determined and made a part of the rate manual.

In general, the underwriting rules governing the writing of the various lines of Property Damage insurance, other than Teams and Automobiles, parallel the rules governing the writing of the respective forms of Public Liability insurance. The exceptions to the general rules have been based upon the special features

peculiar to Property Damage insurance, as already mentioned in this paper. The same classifications also are made use of for Property Damage insurance as are used in writing Public Liability insurance.

The establishment of a set of rates for the various classifications was of necessity based largely upon judgment, inasmuch as there were no statistics available, with the exception of Elevator Property Damage insurance, and even for that class of business, the experience was very limited and of little value for the purpose of rate-making.

When the question of rates was first considered it was thought that the rates for Property Damage insurance should be determined by simply taking a fixed percentage of the corresponding rate for Public Liability insurance. It was soon found, however, that such a basis would not produce logical results due to the fact that in certain classifications the Property Damage hazard bore a much higher relationship to the Public Liability hazard than in other classes. Consequently, the method finally followed in determining the rates was to take up each classification individually and assign a rate based upon consideration of the various hazards which might be encountered in each class, the importance of the specific hazards being judged largely on the basis of engineering as well as underwriting experience. It is evident that the hazards found in the Contracting classes differ materially from those to be found in the Manufacturing classes. Likewise the hazards in the Owners', Landlords' and Tenants' group of classifications present another type for consideration. Some of the more important causes of property damage which had to be taken into consideration are as follows:

- (1) Projecting nails, screws, pieces of material, etc., causing damage to clothing or personal effects.
- (2) Carelessness of workmen, such as painters, paper-hangers, etc.
- (3) Falling materials:
 - (a) Bricks, lumber, cement, etc., where property damage would be relatively small.
 - (b) Structural steel, stone work, machinery, etc., where damage to property might be considerable.

- (4) Excavations:
 - (a) Open trenches or excavations in the public highway, such as are dug for sewers or gas mains, involving damage to vehicles.
 - (b) Excavations for buildings, involving the hazard of undermining or collapse of adjoining property.
- (5) Acids, dyes, solutions of grease, etc.
 - (a) Causing damage to clothing, etc.
 - (b) Causing pollution of water supply.
- (6) Gases, fumes, or dust causing damage to vegetation or adjoining property.
- (7) Fire.
- (8) Explosions:
 - (a) Chemical mixtures.
 - (b) Dust.
 - (c) Blasting.

In addition to these general sources of property damage there are other causes which are unique and peculiar to certain individual classifications only—such as the hazard in connection with restaurants, elevators, signs on buildings, the wrecking of buildings, or the operation of vessels.

Rates were definitely assigned to all classifications within which there might be expected a fairly uniform degree of hazard between risks. In certain classes, it was recognized that there might be considerable variation in the property damage hazard as between risks, due to differences in actual operations, or to the location of the risk with respect to adjoining property. Consequently, definite rates have not been assigned to such classes, inasmuch as it is felt that the individual risks falling in these classes may best be rated after special consideration of the data pertaining to each case, as brought out in the inspection reports. Still another group of classifications are those which were mentioned earlier in this paper, where there is considerable hazard due either to the explosion feature or to the building collapse feature, or both. Rates have been established for these classes, excluding coverage on the two features referred to, and it is possible to provide rates for complete coverage only after consideration of the degree of

hazard involved in each case, as brought out in the inspection reports. The reason for this method of rate treatment was not to prohibit full coverage but simply to provide that in all such cases the full facts should be ascertained by the carrier before assuming the risk.

The basis of premium computation for the Property Damage classes is identical with the basis upon which the premiums for the corresponding Public Liability classes are based—Manufacturers and Contractors Property Damage rates are in general on a payroll basis and are quoted for each \$100 of payroll—Owners', Landlords' and Tenants' Property Damage rates are quoted on an area and frontage basis, etc. Since Property Damage insurance may be written only when concurrent Public Liability insurance is carried in the same company, it is evident that there will be no necessity for making an individual audit or inspection to provide the information required for determining the Property Damage premium as such information will be reported in connection with the Public Liability insurance. Of course, in certain instances it will be necessary to make the inspection report more complete than would be the case if Public Liability only were to be covered, but the additional cost due to this fact should be relatively small.

The rates for Property Damage insurance have been pitched at a low level, being lower than the corresponding Public Liability rates for practically every classification. Consideration of this fact makes it necessary that, for the present at least, this form of insurance should be undertaken with a proper degree of caution on the part of the underwriter. Complete inspection reports should be secured on each risk, in order to satisfy the underwriter that there is not being exercised a selection of business to the disadvantage of the carrier. Moreover, there is the question of underwriting Property Damage risks for high policy limits which must be dealt with in a conservative manner. Two tables have been prepared showing the percentages by which the manual rate for a standard limit of \$1000 must be increased to provide a rate for the excess insurance. In one of these tables the percentages increase considerably faster than in the other, since it was recognized that in the case of certain risks, the probability of incurring an excessive loss was much greater than in certain other types of risks. The table of smaller percentages is used in

the underwriting of most classes of Property Damage insurance, whereas the table of higher percentages applies to certain special classes such as classifications where there is present the explosive hazard or the hazard of building collapse. It is quite probable that many of the carriers will resort to reinsurance to a large extent in the writing of excess Property Damage insurance.

The future of the miscellaneous lines of Property Damage insurance will be determined largely by the demand on the part of the public for this form of insurance. In view of the low rate level at which most of this insurance is being offered, it seems reasonable to believe that it should not prove a difficult line to sell to those who already are covered for Public Liability insurance. It will be necessary at first to educate the public further with respect to this new form of insurance, but after that has been done there should be a fairly good demand for this coverage which so admirably supplements the coverage provided under the Public Liability contract. Then, as this line of insurance develops it will be necessary to provide a plan for compiling the experience on the various Property Damage classifications, and thus pave the way for scientific rates based upon actual statistics rather than pure judgment.

It is realized that the beginning only has been made with respect to Miscellaneous Property Damage insurance but it is felt that this step has been taken after most careful consideration of the various problems underlying this form of insurance. It fulfills a demand for a type of coverage which did not exist heretofore and should provide a basis on which the Property Damage lines of the future may be safely developed.