1962

Personal liability risks and comprehensive insurance coverage

Allison Reese

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PERSONAL LIABILITY RISKS
AND COMPREHENSIVE INSURANCE COVERAGE

by

Allison Reese

In partial fulfillment of Degree Requirements for a
Master of Science Degree in Business Administration
at The University of Richmond, Richmond, Virginia

May 1962
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"Hazard, or uncertainty, or the chance of loss, is a normal condition of living."\(^1\)

The purpose of this thesis is to examine the hazards confronting the individual involving damage to the persons or property of others and to outline and evaluate the insurance coverages which have been developed to provide a means to eliminate the monetary consequences of most of these hazards.

There are two means of meeting hazards: (1) Eliminate the source; (2) Eliminate the consequences. When dealing with individuals it is almost impossible to eliminate the source of the hazard due to varying characteristics of each individual. Education will eliminate some of the sources of the hazards but the remaining hazards must be combatted by attempting to eliminate some of the consequences.

Personal Liability Insurance is one means of eliminating some of the consequences of the hazards. It performs this function by providing a means of paying for losses and expenses resulting from claims for damages for which the individual is legally liable for having accidentally caused or contributed to bodily injury, including death, or to

\(^{1}\)Kulp - Casualty Insurance, Chapter 1, p. 3.
property damage suffered by any other person or persons.

To understand how this protection is accomplished, it is necessary to know the outstanding hazards which confront an individual and how Personal Liability Insurance has been developed to cope with these hazards.
PART I

PRINCIPLES UNDERLYING THE LEGAL LIABILITY OF AN INDIVIDUAL

A logical first step toward clarification of the hazards that face an individual which may be eliminated by Personal Liability Insurance is to determine the circumstances that make an individual legally liable and to outline various legal ramifications with respect to persons and property. This portion of the law which deals with the responsibilities of the individual resulting from improper conduct on his part whereby another person or his property is injured, whether the conduct consists of an act of commission or omission falls into the category of law known as tort liability.

Definition of a Tort

A tort may be defined as "a term applied to a miscellaneous and more or less unconnected group of civil wrongs, other than breach of contract, for which a court of law will afford a remedy in the form of an action for damages. The law of torts is concerned with the compensation of losses suffered by private individuals in their legally protected interests, through conduct of others which is regarded as socially unreasonable." ² Although a tort as defined includes certain intentional acts, such as assault and battery, no discussion of these torts is necessary from an Insurance

² Prosser on Torts - Chapter 1, p. 1.
viewpoint as any intentional act committed by or at the direc-
tion of the Insured is not covered by legal liability in-
surance. This is true even though any resulting damage is 
construed to be accidental.

**Historical Background**

The historical development of tort liability dates 
back to the English common law when the King's Court was the 
only source of remedy for injuries sustained by an individual. 
The procedures of the courts were rigidly outlined and it 
was not possible to obtain compensation for injuries unless 
the individual could fit his claim into some existing and 
recognized writ, order or mandatory process, issued in the 
name of and under the seal of the King. As a result of 
these limitations it was often impossible to obtain justice.

Appeals from the King's Court had to be made in per-
son to the King usually through a church official who was 
the King's spiritual advisor. This spiritual advisor could 
remedy the unjust limitations of the King's Courts by 
applying doctrines of proper and ecclesiastical behavior 
and these doctrines slowly became a part of the common law 
although even at the beginning of the nineteenth century 
the King's writs formed the backbone of legal procedure.

By the middle of the nineteenth century these writs 
were beginning to be modified and liberalized and at last 
replaced by modern codes of law which retained the legal 
substance of the writs but permitted actions at law which 
were beyond the scope of the writs.
As changes and development have progressed and as society's standards keep changing so has the law of torts progressed. Since the turn of the 20th Century there have been several new fields of torts which have arisen, as in the fields of actions for nervous shock and mental suffering caused by false arrest or public humiliation, or by verbal abuses.

**Torts of the Individual**

Through this period of development three elements have appeared as the basic factors in determining the liability of an individual for his wrongful conduct which results in injury to others. An individual may be considered legally liable for damages if any of these three elements are present:

1. Negligence.
2. Absolute Liability.
3. Private Nuisance.

**Negligence.** Negligence may be defined as "the omission to do something which a reasonable man, guided by those considerations which ordinarily regulate the conduct of human affairs would do, or doing something which a reasonable and prudent man would not do."

Negligence for which an individual is held legally liable results when all of the following conditions are

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^3Kulp - Casualty Insurance, Chapter 4, p. 47.
present:

1. There must exist a legal duty to exercise reasonable care.
2. There must be a failure to exercise that care.
3. There must be no intent to cause injury.
4. As a result of this failure to exercise reasonable care an innocent party must be injured.

Reasonable care is the care an ordinary, prudent man, who represents a community ideal of reasonable behavior, would exercise in a given situation. For instance, a landlord is expected to keep his sidewalk in safe condition. He is not ordinarily expected to go out and clean his sidewalk at the height of a snowstorm although he is expected to clear it within several days after the storm. The failure to exercise this reasonable care cannot be accompanied by an intention to cause injury, as an act with such a motive is a crime and not a tort.

Defenses Against Negligence. Finally, the injured party must be entirely free of fault in order to recover, otherwise the negligent party has several defenses he can use. Two of these defenses against negligence actions are:

1. "Assumption of risk"
2. "Contributory negligence"

The assumption of risk refers to a situation in which the plaintiff with full knowledge of the risk involved voluntarily enters into some activity which places himself
in danger. The legal position is that under circumstances such as this the defendant is under no duty to protect the plaintiff. The best example of this is the spectator at a baseball game assuming the risk of being hit by a baseball.

The other main defense in a negligence action, that of contributory negligence, means that the plaintiff's own conduct is unreasonable under the circumstances. The plaintiff in no way intends to relinquish his right to recovery but the law refuses to allow him to shift to another party the blame for a loss when the plaintiff himself is in part responsible. There is negligence on both the plaintiff and the defendant in such cases.

There is also, at present, in a few states' statutes which classify negligence into "degrees of negligence" and apportion damages according to how much greater the defendant's negligence is than the plaintiff's. Thus, under these statutes, if the defendant's fault is found to be twice as great as the plaintiff's, the plaintiff will recover two-thirds of his damages. This classification of negligence is known as the "doctrine of comparative negligence" and is seldom used in common law.

Negligence Liability of Employers. One of the separate divisions of negligence law is that of master and servant. The Liability of the Employer for injuries sustained by his employees due to the Employer's negligence
is an important part of the common law today.

Until 1837, the rights of the employee against his employer were the same as any other member of the public, but following the case of Priestly vs. Fowler a new interpretation of the relationship between master and servant arose which placed serious limitations on the rights of workmen.

Under this new interpretation, which soon became a new branch of the common law, the master or employer had three defenses in resisting suits for damages arising out of occupational injuries. These three defenses were:

1. The doctrine of common employment or the fellow-servant rule which stated that if the employee was injured as a result of the negligence of a fellow-servant, he was barred from the right to recovery on the assumption that by working with such a person he assumed the risk of the fellow-servant's actions.

2. The doctrine of the assumption of risk which stated that the employee assumed the ordinary hazards of industrial injury and thereby waived any claims for damages in case of injury due to unsafe working conditions.

3. The defense of contributory negligence which stated that if an employee who was injured through the negligence of his employer and was in any way guilty of neglect himself would have difficulty in pursuing any action against his employer.
These defenses were so harsh on the employee that beginning with the English law of 1880 they were modified by court decisions and statutes in favor of the workmen. The contributory negligence rule was changed in some states to the doctrine of comparative negligence, the fellow-servant rule was restricted to actions of immediate fellow-workers and foreman and managers were no longer considered in this class. Failure to comply with safety statutes was made prima-facie evidence of an employer's negligence and other burdens were placed on the employer.

This system was very unsatisfactory because of various state and court interpretations and as a result, was one of the important factors in the development of Workmen's Compensation Insurance. However, because of the court's views on the master-servant relationship the need for Employer's Liability Insurance is still an important one today.

**Absolute Liability.** The second element in determining the liability of an individual, the doctrine of absolute liability, is considerably different from the doctrine of negligence. Absolute liability is liability imposed on the individual by law although there is no "fault" on the part of the individual.

This liability arises even though the individual's conduct is socially desirable. The conduct is not treated as wrongful in itself and is not prohibited in advance but
due to the unusual gravity of the risk the individual is
held absolutely liable for resulting injuries or damage.

Liability for animals is perhaps the best example
of absolute liability. Thus the owner of an animal of a
kind which is likely to do harm to the property of others
if it escapes, is liable without negligence for any dam­
age it may do to the property or to the person of another.
Many states have statutes imposing strict liability on
animal owners such as Connecticut's Dog Statute which
imposes strict liability for all damage done by dogs.

The keeping of vicious animals such as lions, bears,
tigers or wolves or other inherently dangerous practices
such as storing quantities of dynamite or inflammable
liquids on one's premises also fall into this category
and invoke absolute liability on the individual.

Private Nuisance. The last element, that of pri­
ivate nuisance, is a term applied to unreasonable inter­
ference with the interest of an individual in the use or
enjoyment of land.

The ownership of land involves not only the right
to maintain the property itself but also the right to com­
fort and convenience in occupying the land. Thus any
interference with personal comfort such as the dog next
door howling at night is considered in the nuisance clas­
sification.

There are an infinite number of ways by which the
right to enjoyment of land may be invaded. A private
nuisance may consist of pollution of a stream or unpleasant odors from a nearby factory. Likewise it may consist of loud noises or smoke or gas from some nearby source. It may also consist of an interference with the physical condition of the land itself as by blasting which damages a house or by vibration from nearby machines which causes discomfort and possible damage to the property.

Another phase of nuisance, a little more modern in origin is known as the "Attractive Nuisance Doctrine." This is a phase of the law which tends to protect children from objects which irresistibly attract them.

One of the earlier cases which occurred in England in 1841, came about when a child climbed upon a cart which had been left unattended in the highway. After remaining there for awhile he attempted to jump off when another boy caused the horse to move and the cart to run over him. The child had no right to be on the cart and was therefore a trespasser, however, suit was instituted and the court ruled that the driver was careless in leaving the cart unattended and that this carelessness was responsible for the child's injury. Thus, it was said that the trespass should be overlooked and the driver's employer should pay for the resulting injury.

The essence of the doctrine created by this case is that it is the duty of the individual "to take such precautions as a reasonably prudent person would take to prevent
injury to children of tender years whom it is known are accustomed to resort to the location or who may, by reason of something there which may be expected to attract them, come there to play."^4

Interests Protected by Insurance

The function of legal liability insurance from a personal liability viewpoint is to protect individuals from catastrophic losses caused by negligence in their relations with third parties. Legal liability insurance means exactly what the words denote, that is, insurance coverage only when there is justified legal action. It does not intend to cover moral obligations although it will defend the insured in court from fraudulent claims brought against him. This is one of the outstanding virtues of personal liability insurance. Under the conditions which prevail today the cost of defense is often as much as, or more expensive than the payment of the verdict or judgment itself.

An analysis of the coverage provided by personal liability insurance necessitates a review of the types of personal liability coverage which may be obtained, and the reason and justification for offering these coverages to the public.

PART II
EARLY FORMS OF PERSONAL LIABILITY INSURANCE

Personal Liability Insurance has been developed to provide insurance protection for individuals for damages to third parties resulting from the individual's tortious conduct. This insurance, although fairly recent in origin, has undergone numerous changes and constant revision and as a background to the Comprehensive Personal Liability Policy in force today, it is necessary to review the early forms of Personal Liability Insurance coverages from the standpoint of coverages available, limitations and price.

The early forms of Personal Liability Insurance were for the most part, limited to specific coverages for specific hazards. As late as 1928, there was no policy which would provide coverage for every personal act of an individual. The companies recognized only the main hazards which confronted an individual and separate policies or special endorsements were used to provide the necessary coverage.

Specific Coverages

The specific coverages available prior to 1928 consisted of Residence Liability, Dog Liability, Golfers' Liability or Sports liability, and Bicycle and Rowboat Liability. The basic limits of liability for these coverages were: (1) $5,000 on account of bodily injury to or
death of any one person and subject to the same limit for each person, $10,000 on account of bodily injuries to or death of more than one person in any one accident. (2) $1,000 on account of damage to or destruction of property of others in any one accident. Increased limits were available at appropriate increased rates.

A description of each of these coverages and the premium charge required at basic limits follows:

Residence Liability

Residence Liability coverage provided indemnification for the liability of the insured as owner or lessee of a private residence (including sidewalks and other ways adjacent to the private residence) and also included coverage for ordinary alterations and repairs of the premises, provided the named insured resided in the residence.

Premium Charge. Bodily Injury only - $5.00 per residence. Property Damage coverage for residence liability was not part of the rating manual prior to 1934.

Dog Liability

Dog Liability provided indemnification for the liability of the insured as the owner of a dog. The coverage applied only to claims arising out of accidents which occurred away from the assured's premises. For coverage on the premises, a residence liability policy was necessary.

Premium Charge. Bodily Injury - $5.00 per dog.
Property Damage - $5.00 per dog.
Golfers' Liability

Golfers' Liability provided indemnification for the liability of the insured against loss arising or resulting from claims for damages on account of bodily injury or death or property damage suffered by any person or persons as the result of an accident by reason of practice or participation in any game of golf.

Premium Charge. Bodily Injury - $3.30 per person, Property Damage - $2.50 per person.

Sports Liability

Sports Liability provided indemnification for the liability of the insured against loss arising or resulting from claims for damages on account of bodily injury, death or property damage suffered by any person or persons as the result of an accident by reason of practice or participation in any game of golf, baseball, basketball, football, hockey, polo, tennis or any other athletic sports or games.

This insurance did not cover accidents arising out of the ownership, maintenance or use of aircraft, automobiles, bicycles, boats, firearms, motorcycles or animals other than polo ponies while engaged in practicing or playing polo.

Premium Charge. Bodily Injury - $5.00 per person, Property Damage - $2.50 per person.

Bicycle and Rowboat Liability

The Bicycle and Rowboat Liability provided indemnifi-
cation for the liability of the insured as owner or user of bicycles, tricycles and rowboats except for racing or professional use.

No manual rates prior to 1934.

Assuming that a person desired all of the above coverages except Golfers' Liability, which was covered under the Sports Liability Policy, the total premium charge at basic limits would have been as follows:

- **Residence and Summer Home** - $10.00 - Bodily Injury only.
- **One Dog** - $5.00 - Bodily Injury
- **- $5.00 - Property Damage**
- **Sports Liability**
- **Husband and Spouse** - $10.00 - Bodily Injury
- **- $5.00 - Property Damage**
- **Rowboat - usual charges** - $2.50 - Bodily Injury
- **- $2.50 - Property Damage**

**Total Cost of Insurance ... $40.00**

Although the premium charge for all of these coverages was high, many individual policies or combinations of coverages were written by the casualty companies. There was no standardization and no two policies were alike; in many cases the policies were "tailormade" to fit the needs of the assured. However, coverage for personal acts other than those specifically insured, was not available and no rating basis was established.
First Coverage for Personal Acts

In 1928, the General Accident and Liability Insurance Company, Limited, of Zurich, Switzerland issued a policy covering residence liability, dog liability and saddle horse liability, gun liability (covering target practice, self-defense or hunting), sports liability, bicycle and rowboat liability and personal acts of the individual.

The annual premium at basic limits for this coverage was $30.00, and if dog liability, horse liability and gun liability were excluded, the annual premium charge was reduced to $15.00.

The Insuring Agreements covering personal acts of the insured read as follows:

"This policy, subject to all conditions, exclusions, and limitations hereinbefore or hereinafter set forth, shall be considered to cover the liability of the assured

(i) as participant in an accidental event resulting in bodily injury to or death of another person or other persons, such as colliding while walking or running in the street, causing a person to slip or fall on sidewalk or from vehicle, also including injuries to eyes or otherwise from umbrella, cane or other object carried or used by the assured, and other occurrences of a similar nature.

(j) as participant in the accidental damage to or destruction of property of another person or other persons, such as starting fires by lighted cigars, cigarettes or
matches, breakage of articles of value and other occurrences of a similar nature."

Shortly after this policy appeared, the other casualty companies followed with similar policies, all of which provided coverage for personal acts of the insured. However, there were still no standard rules or regulations.

**Standardization**

In 1932, after extensive study of the records of member companies, the National Bureau of Casualty Underwriters set forth a uniform program for the writing of personal liability insurance which included the following **Insuring Agreements**:

**Insuring Agreements:** The policy shall cover:

1. The legal liability of husband and wife, and relatives of either, if any living in his household, with respect to both personal injuries and property damage resulting from all of the activities and hazards for which coverage is provided in the policy.

2. The legal liability of husband and wife for all accidents caused by their minor children and resulting from any of the activities and hazards covered in the policy, either separately or in combination.

3. The legal liability of husband and wife for accidents both on and away from the insured premises caused by any servant employed on the insured premises, except as otherwise excluded.
Required Coverages

The rule required the writing of Bodily Injury Liability with Property Damage Liability on an optional basis, and also required coverage for:

1. The private residence actually occupied by the insured.

2. Sports Liability, which covered accidents caused by the insured to any person or persons:
   (a) while participating or practicing in any athletic contest or game.
   (b) while engaged in fishing, hunting, target practice and the use of firearms in connection therewith.
   (c) while using, for other than commercial purposes, saddle animals not owned by the insured, with or without vehicles attached.
   (d) while using, for other than commercial purposes, bicycles, canoes, or rowboats, except owned canoes or rowboats when equipped with portable outboard motors.
   (e) while using power or sailboats not owned or charted by the insured.

3. Personal acts and activities of the insured not otherwise provided for.

A comparison of this coverage to the separate coverages offered on a specific basis stresses the advancement made in providing for the needs of the individual. All of the specific coverages were combined into the one contract with the exception of Dog Liability which was an optional
coverage and could be added by endorsement.

**Exclusions**

Although the new policy provided many advantages by the combination of coverages, many of the exclusions in the individual policies were carried over and the total number of exclusions was quite impressive as can be seen from the following:

The coverages did not apply:

1. To the Legal Liability of the insured for bodily injuries to employees except as respects coverage for Sports Liability.

2. To the Legal Liability of the insured with respect to bodily injuries and property damage because of the insured's business, occupational pursuits or the rendering of professional services or the omission thereof.

3. To Aircraft Public Liability and Property Damage away from the insured's premises.

4. To Automobile Public Liability and Property Damage away from the insured's premises.

5. To Contractual Public Liability and Property Damage.

6. To Elevator Public Liability or Property Damage.

7. To Teams Liability, except as provided under Sports Liability.

8. To Legal Liability of the insured for bodily injuries or property damage away from the insured's premises.
caused by dogs, draft or saddle animals owned by the insured, other than polo ponies, while engaged in and practicing or playing polo.

9. To Legal Liability of the insured for bodily injury or property damage while using, for commercial purposes, bicycles, canoes or rowboats when equipped with portable outboard motors or power, or sailboats owned or chartered by the insured.

10. To injury to or destruction of property owned, leased, occupied, used by, or in the care, custody or control of the insured or any of his employees.

11. To Legal Liability of the insured caused by operations of independent contractors, their agents or their employees.

Rating

A single flat charge was established to cover all hazards of the policy. This rating basis of the new policy was a decided improvement over the set charges which had applied when each coverage was written separately. There were a few unusual features which deserve attention as they indicate the insurer's viewpoint on the hazards at that time.

The basic charges for $5,000/10,000 bodily injury limits and $1,000 property damage limits were $15.00 bodily injury and $5.00 property damage with an additional charge of $2.50 bodily injury and $2.50 property damage for
each additional residence occupied by the insured or by the insured's employees, but not residences rented to others. All residences on the insured's premises had to be covered. Residences located away from the insured's premises could be covered at the option of the insured.

It might be well to point out one of the shortcomings of the policy in connection with residences of the insured. As stated above, for an additional residence occupied by the insured, the premium charge was $2.50 bodily injury and $2.50 property damage, but this did not include residences rented to others. Those residences rented to others had to be covered on the regular Owner's Landlord's and Tenants Coverage with a $5.00 bodily injury and $2.50 property damage charge. This appears to be inconsistent with the idea of eliminating the many separate policies, but the attitude at the time was that an entirely different exposure was involved than that contemplated by the Personal Liability Policy and that any commercial business of an insured should be covered under a separate policy.

There is another unusual feature which was set forth in the rating of property damage coverage. All property damage coverage on residences was required to carry a $10.00 per accident deductible clause.

The companies at the time were proceeding with caution as no one knew exactly what types of claims were in
the offing. By the application of a $10.00 property dam-
age deductible, they intended to eliminate the nuisance
crash of small property damage claims.

When this policy was authorized, the $10.00 prop-
erty damage deductible was undoubtedly justified if all of
the facts are taken into consideration. No company had
any vast experience to rely on and each company had only
from 50 to 100 of these policies on their books. As prop-
erty damage was an optional coverage, and with no law of
large numbers to provide diversification, the possibilities
of adverse selection were great. Individuals with dogs or
children were much more likely to desire property damage
coverage to cover claims involving broken windows or
trampled gardens than were individuals with no children or
dogs. If the property damage coverage had been a required
coverage, it is quite possible that the need for a deduct-
ible feature would have been eliminated.

Optional Coverages

The three optional coverages under the new policy
were:

1. Dog Liability away from the insured premises.
$5.00 per dog bodily injury and $5.00 per dog property dam-
age. Saddle animals - private - not rented to others.
$5.00 per animal bodily injury and $2.50 per animal prop-
erty damage. The deductible feature did not apply to
these coverages.
2. Legal Liability of minor children, regardless of age, with respect to all activities and hazards covered under the policy, $1.00 per child bodily injury and $1.00 per child property damage.

3. Employer's Liability coverage for domestic servants. Employer's Liability coverage including first medical aid, $1.00 per servant, $2.50 per private chauffeur.

Analysis of Major Changes

An analysis of the development of Personal Liability Insurance from 1928 to 1932 shows that the companies had made three major changes. Firstly, they combined all of the specific coverages into one policy. Secondly, they added coverage for personal acts of the insured, not specifically defined. Thirdly, they reduced the cost of the insurance to the point where the average individual could afford it.

Changes. During the next 10 years, the only changes in the basic provisions and in the rating basis set forth by the National Bureau of Casualty Underwriters were: The elimination of the $10.00 property damage deductible; the inclusion of coverage for additional dwellings not occupied by the insured; the inclusion of relatives of the husband or wife under the age of 21 who lived in the same household as named insureds.

This does not mean that the companies were satisfied, however, for on January 11, 1943, the National Bureau of Casualty Underwriters put into effect a simplified and
broadened Personal Liability Insurance program under the title "Comprehensive Personal Liability Insurance."

This new policy was the result of increased demand for the coverages. This demand gave the Bureau a large number of insureds and the necessary premium and loss figures from which they could develop a premium commensurate with the actual experience.
PART III
THE COMPREHENSIVE PERSONAL LIABILITY POLICY

Definition of Comprehensive

The word "comprehensive", according to Webster's Dictionary, means "Including much; comprising many things; having a wide scope...". This is indeed a fitting definition when used in connection with the Comprehensive Personal Liability Policy authorized in January, 1943.

The Personal Liability Policy, prior to that date, was comprised of many coverages but the scope of the coverage was limited to scheduled items. The new Comprehensive Personal Liability Policy included more details, such as wider coverages and much broader scope than any previous Personal Liability Policy.

Broadened Scope of Coverage

The most radical change was in the scope of coverage. The new Comprehensive Personal Liability Policy contemplated that certain basic coverages must be included in the policy and must be paid for if exposures for these coverages existed. However, if the hazards included in this basic coverage did not exist at the time the policy was issued, but arose subsequently, these hazards would be automatically covered without premium charge until the next anniversary of the Policy. The scope had been widened from scheduled
items to automatically include all items in the basic coverage.

The hazards which constituted the basic coverages under the policy can be divided into three groups: Premises; Personal Activities; Other Liabilities.

The Premises group covered the principal residence and other residences on the premises for the use of guests or servants. It included other locations owned by the insured for his own personal residence and rented residences used temporarily by the insured. Garages and stables incidental to the residences were covered as well as vacant land not used for farming or business purposes. The final premises covered were individual or family cemetery plots or burial vaults.

The personal activities that were covered consisted of practicing, participating or giving instructions in athletics or sports; fishing, hunting or target practice and the use of firearms for these purposes; other personal activities, not professional or business, including liability for acts of minor children or servants and, last; the use of bicycles on or away from the premises for non-business purposes.

The third group of hazards covered under the basic coverage comprised another radical departure from the old Personal Liability Policy as it included several coverages previously excluded.
Coverage was provided for: Dogs, saddle or driving animals and teams on or away from the premises; canoes or rowboats with or without outboard motors on or away from the premises; contractual liability relating to the premises; products liability for products not sold in connection with business operations; maintenance, repair or alterations of premises, or construction of new residence for the insured's use at premises covered by the policy; liability for accidents occurring on residence premises after having been sold.

It is interesting to note that this policy provided for automatic coverage of the above hazards if they arose after the inception of the policy even though the previous policies had excluded coverage for several of the hazards such as contractual liability relating to premises, dogs and horses away from the premises, canoes or rowboats equipped with outboard motors, teams liability, product liability and liability in connection with independent contractors.

**Insuring Agreements**

Notwithstanding these broad changes, the new policy offered three new coverages in addition to the Bodily Injury Liability and Property Damage Liability. These coverages, Premises Medical Payments, Employers' Liability, and Employers' Medical Payments were on an optional basis as was the Property Damage Liability. The Insuring Agreements read as follows:
1. **Coverage A - Bodily Injury Liability**

   The Company agrees "to pay on behalf of the insured all sums which the insured shall be obligated to pay by reason of the liability imposed upon him by law, or the liability of others assumed by him under written contract relating to the premises, for damages, including damages for care and loss of services, because of bodily injury, sickness or disease, including death at any time resulting therefrom, sustained by any person or persons and caused by accident."

2. **Coverage B - Property Damage Liability**

   The Company agrees "to pay on behalf of the insured all sums which the insured shall become obligated to pay by reason of the liability imposed upon him by law, or the liability of others assumed by him under written contract relating to the premises, for damages because of injury to or destruction of property, including loss of use thereof, caused by accident."

3. **Coverage C - Premises Medical Payments**

   The Company agrees "to pay to or for each person who sustains bodily injury, sickness or disease, caused by accident, while on the premises with the permission of an insured, or while elsewhere if the accident arises out of the premises or a condition in the ways immediately adjoining, the reasonable expense of necessary medical, surgical, ambulance, hospital and professional nursing services and,
in the event of death resulting from such injury, sickness, or disease, the reasonable funeral expense, all incurred within one year from the date of accident."

4. **Coverage D - Employers' Liability**

The Company agrees "to pay on behalf of the insured all sums which the insured shall become obligated to pay by reason of the liability imposed upon him by law for damages, including damages for care and loss of services, because of bodily injury, sickness, or disease, including death at any time resulting therefrom, sustained by any resident employee of an insured while engaged in the employment of the insured and caused by accident."

5. **Coverage E - Employers' Medical Payments**

The Company agrees "to pay to or for each resident employee of an insured who sustains bodily injury, sickness or disease, caused by accident, while on the premises or on the ways immediately adjoining, or while elsewhere, if engaged in the employment of the insured, the reasonable expense of necessary medical, surgical, ambulance, hospital and professional nursing services and, in the event of death resulting from such injury, sickness or disease, the reasonable funeral expense, all incurred within one year from the date of accident."

**Comparison of Above Coverages**

A comparison of the insuring agreements for Coverages A and B to the insuring agreements for the previous
Personal Liability Policy bears out the tendency of the companies to broaden coverage wherever possible. In addition to coverage for bodily injury and property damage, the agreements included coverage for contractual liability relating to the premises and for damage for care and loss of services suffered by the third party, and furthermore, omitted any mention of accidents caused by minor children, as minor children were covered as named insureds under the new policy.

Of the remaining three coverages, only the Employers' Liability coverage provided under Coverage D of the policy was not comparatively new to Personal Liability Insurance. This coverage was an optional coverage under the previous Personal Liability policies and had to be added by endorsement, but the inclusion of Employers' Liability Coverage as one of the insuring agreements of the Comprehensive Personal Policy was another step forward in eliminating the many separate coverages.

Coverage E, Employers' Medical Payments, originated in 1940 on an optional basis for Personal Liability policies which included Employers' Liability coverage. The intent of this coverage was to provide voluntary medical payments for employees injured while working for the insured regardless of whether or not there was any liability on the part of the insured.

Coverage C, Premises Medical Payments, appearing
for the first time on the new Comprehensive Personal Policy as an insuring agreement, originated in 1942 for personal liability coverage. This coverage provided expenses for medical, surgical, hospital and nursing services for guests and other members of the public injured while on the premises with insured's permission, regardless of the insured's negligence.

Other Insuring Agreements

The three other insuring agreements of the new Comprehensive Personal Policy provided for Defense, Settlement and Supplementary Payments by the company, defined the word "Insured", and limited the territory.

The Defense, Settlement and Supplementary payments agreement was, by this time, usual to liability policies. It provided that the company would:

1. defend the insured against any suit alleging injury and seeking damages whether the suit was fraudulent or not.
2. pay all premiums on bonds to release attachments.
3. pay all premiums on appeal bonds.
4. pay all costs taxed against the insured in any such suit.
5. pay all expenses incurred by the company.
6. pay all interest accruing after entry of judgment.
7. pay all expenses incurred by the insured for such
immediate and surgical relief to others as shall be imperative at the time of accident.

8. reimburse the insured for all reasonable expenses except loss of earnings, incurred at the company's request.

Any payments incurred under this insuring agreement were in addition to the applicable limit of liability of the policy.

The definition of "Insured" was broadened to include "the named insured and also, if residents of his household, his spouse and relatives of either under the age of 21 years, and with respect to any dog or horse owned by the insured, any person or organization legally responsible therefor."

The territory covered by the policy was limited to the United States of America, its territories or possessions, Canada and Newfoundland.

Optional Coverages

In addition to the coverages available under the insuring agreements of the policy, there were several optional coverages which could be added by endorsement for proper additional charges.

Adult members of the insured's household could be added as named insureds. As the definition of insured included only the relatives of the husband and spouse under the age of 21, any adult member of the household had to be added by endorsement and an additional premium had to be paid.
Residence glass coverage was available by endorsement covering the replacement of fixed glass in the residence accidentally broken by any cause except fire or war.

Coverage was also available, up to $200, on golf equipment and clothing for loss by fire, theft, transportation and accidental breakage occurring anywhere outside the insured's residence.

Non-Comprehensive Liability coverage for one or two family dwellings owned and rented to others or held for rental to others was available by endorsement. The use of the word Non-Comprehensive meant that such coverage applied only to the specific residence included on the endorsement with no automatic coverage for similar residences obtained during the policy period.

Exclusions

The exclusions of a liability policy fall into four categories:

1. Exclusions relating to coverages which cannot be written on liability policies.

2. Exclusions relating to coverages which can be provided by endorsement on the same policy.

3. Exclusions relating to coverages which can be provided by another form of liability policy.

4. Exclusions relating to specific hazards for which coverage is provided elsewhere in the same policy.

Applying these four categories to the exclusions of
the Comprehensive Personal Policy provides an understanding of the reason for each exclusion.

**Exclusion (a).** The first exclusion of the Comprehensive Personal Policy, falling under the third category above, excluded coverage for contractual liability except for contracts relating to the premises covered by the policy. Contractual liability other than lease of premises would fall under business operations of the insured, and as such would have to be covered under a separate liability policy.

**Exclusion (b).** Exclusion (b) stated that the policy did not apply under Coverage A to bodily injury to or death of any employee of the insured while working for the insured, or to any obligation for which the insured could be held liable under any Workmen's Compensation Law.

This exclusion was necessary as Employers' Liability coverage was optional and could be provided under Coverage D of the policy. The exclusion with regard to Workmen's Compensation relieved the company of any obligation if Workmen's Compensation was mandatory for all employers under the state law. Many states' Compensation Acts provided that Workmen's Compensation coverage for one, two or three employees was optional for the employer, and in such cases the Employers Liability coverage of the Comprehensive Personal Policy would provide protection for the employers' legal liability to his employees. However, if the state act placed all employees within its provisions, the employer
would have to have Workmen's Compensation coverage which included Employers' Liability coverage, thereby removing the need for Employers' Liability coverage under the Comprehensive Personal Policy.

**Exclusion (c).** The third exclusion stated that the policy did not apply under Coverage B to injury to property owned, occupied or used by the insured, or to property in his care, custody or control. Coverage for such property would have to be provided by an indemnity policy and could not be covered under a liability policy. This exclusion further eliminated coverage for premises alienated by the insured out of which the accident arises, as the insured would have no insurable interest in property which had been transferred to others.

**Exclusion (d).** The next exclusion eliminated coverage for any business or occupational pursuits of the insured unless necessary or incidental to business use of the premises specifically covered by the policy. Also excluded was: Any act or omission of the insured in connection with other premises owned, rented or controlled by the insured; or the rendering of any professional services or omission thereof.

The policy intended to extend coverage to private residences with incidental office, professional, private school or studio occupancy, but did not intend to extend coverage to any other business occupancy such as stores,
plumbing shops, etc. The reasoning for this exclusion of business pursuits of the insured was that if residences with business operations other than incidental occupancy were covered, it would be difficult to determine whether certain accidents were to be charged to the business, which would be excluded, or to the residence which would be covered.

The exclusion with respect to other premises owned, rented or controlled by the insured was used to make certain that all exposures which were present at the inception of the policy were included and premium paid thereon.

Professional services were excluded as this coverage had to be provided under a Professional Malpractice Policy and the coverage was not under the jurisdiction of the National Bureau of Casualty Underwriters.

Exclusion (c). The policy did not apply to the ownership, maintenance or use, or loading or unloading of (1) watercraft owned or rented by the insured, other than canoes or rowboats while away from premises, or (2) motor vehicles, trailers or semi-trailers while away from the premises.

The Policy provided coverage on the premises for both watercraft and motor vehicles but coverage away from the premises for these exposures had to be provided by Owners, Landlords and Tenants Coverage for the former, and Automobile Liability Coverage for the latter.
Exclusion (f). No coverage was provided under the Comprehensive Personal Policy for (1) elevators or escalators owned by or rented to the insured or for (2) aircraft.

Elevator Liability coverage had to be covered under a separate Elevator Policy and Aircraft Liability was not under the jurisdiction of the National Bureau of Casualty Underwriters.

Exclusion (q). The last exclusion stated that the policy did not apply to bodily injury to or sickness, disease or death of:

1. Under Coverages C, D and E, any person to whom benefits would be paid under any Workmen's Compensation law.

2. Under Coverage C, the named insured, any person regularly residing on the premises, any person if on the premises because of a business conducted at the premises, or any employee of the insured while engaged in the employment of the insured.

3. Under Coverage D and E, any employee while engaged in structural alterations, new construction or demolition operations, or in the operations or maintenance of aircraft.

Coverage for construction operations by employees of the insured was excluded as this coverage was available under Manufacturers and Contractors Policy. No coverage was available under the Comprehensive Personal Policy with respect to aircraft.
Medical Payments Coverage was not available to any insured under the policy. Coverage for this type of exposure was available under Accident Insurance Policies and was not contemplated under a Personal Liability Policy.

Medical Payments Coverage was eliminated in connection with business pursuits on the premises as business pursuits were not covered by the policy under Coverages A and B.

Employees' Medical Payments Coverage was excluded under Coverage C as this coverage was available elsewhere in the policy.

**Limits of Liability**

Basic limits of liability under Coverages A and B of the Comprehensive Personal Policy were the same as on previous personal liability policies.

- Bodily Injury Liability -- $5,000 each person, subject to a maximum limit of $10,000 each accident.
- Property Damage Liability -- $1000 each accident.

The basic limits of Liability for Employer's Liability coverage were the same as the bodily injury limits under Coverage A.

The basic limit for medical payments under both Coverages C and E was $250 for each person who sustained injury in any one accident.

Increased limits of liability were available under Coverages A, B and E. For any increased limits, factors
were available for increasing the premium charge accordingly.

Under Coverage C and E, additional premium charges were manually rated for increasing the medical payments limit to $500 each person.

**COMPREHENSIVE PERSONAL POLICY RATES**

In order to provide a basis of comparison for the changes which have occurred since the original authorization of the Comprehensive Personal Policy, a brief outline of the original charges follows:

**Basic Limits - Annual Basis**

<table>
<thead>
<tr>
<th></th>
<th>Bodily</th>
<th>Property</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Injury</td>
<td>Damage</td>
</tr>
<tr>
<td>Private residence or apartment</td>
<td>$10.00</td>
<td>$ 2.50</td>
</tr>
<tr>
<td>Private residence including incidental office</td>
<td>15.00</td>
<td>3.50</td>
</tr>
<tr>
<td>Additional residences maintained by the insured -- each</td>
<td>2.50</td>
<td>1.00</td>
</tr>
<tr>
<td>Employers' Liability Regular inservants -- each</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>Regular outservants -- each</td>
<td>1.50</td>
<td></td>
</tr>
<tr>
<td>Employers' Liability and $250 Medical Payments Full time inservants -- each</td>
<td>2.50</td>
<td></td>
</tr>
<tr>
<td>Part time inservants (half-time or less) -- each</td>
<td>1.25</td>
<td></td>
</tr>
<tr>
<td>$250 Premises Medical Payments First residence</td>
<td>2.50</td>
<td></td>
</tr>
<tr>
<td>Each additional residence</td>
<td>1.25</td>
<td></td>
</tr>
</tbody>
</table>

The premium for three-year term policies with premium payable in advance was 2½ times the annual charge.

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*Rate manual published by National Bureau of Casualty Underwriters.*
PART IV
CHANGES SINCE 1943

Since the inception of the Comprehensive Personal Liability Policy in 1943, there have been numerous changes in the coverage afforded by the Policy and in the rating of the Policy. This chapter presents a chronological record of these changes and an interpretation of the new and broader coverages afforded.

The first change in October 1943, added coverage on an optional basis for one and two-family residences rented to others. This coverage, if elected by the insured, was to be included in the basic coverages and automatic coverage was provided for such residences acquired subsequent to the inception of the policy. This addition in coverage eliminated the optional non-comprehensive coverage previously required for residences rented to others and indicated that the companies recognized the exposure of one or two family residences rented to others as one closely related to the personal liability of an individual.

On June 1st, 1944, the National Bureau of Casualty Underwriters approved a revised program of Comprehensive Personal liability Insurance which included several major changes in coverage.

The most important change combined Bodily Injury Coverage, Employers' Liability Coverage and Property Damage...
Liability Coverage at a single limit of $10,000, applying on an "occurrence" rather than a "caused by accident" basis.

The change to combined coverage removed Employers' Liability and Property Damage Liability from their previous optional basis. These coverages were now automatically included under the basic provisions of the Policy for the same limit of liability as the Bodily Injury coverage.

The single limit of liability was a complete departure from the usual liability method of classifying hazards and provided broader coverage by increasing the basic limits of liability for Bodily Injury Liability, Property Damage Liability and Employers' Liability.

The third departure from the ordinary under this revised coverage was the change from the usual "caused by accident" basis to an "occurrence" basis. "Occurrence" as defined by the Policy meant "an accident, or a continuous or repeated exposure to conditions, which results in injury during the policy period, provided the injury is accidentally caused."

An example of injury to property on an "Occurrence" basis reflects the broadening of coverage that this change brought about.

Take, for instance, a case where Mr. X and Mr. Y have homes on adjoining lots and Mr. Y has a rare flower garden in his backyard. Mr. X who has a vegetable garden in his backyard uses a fluid spray to kill the weeds in his
garden for three consecutive days. On the fourth day Mr. Y notices that all of his rare flowers have died because of the spray used by Mr. X and he brings a suit for damages. There was no accident involved and under the original Comprehensive Personal Policy there would be no coverage, however, there was injury caused by continuous spraying by Mr. X and the Comprehensive Personal Policy on an "occurrence" basis would provide the necessary protection.

The revised program also amended the coverage by including premises and employees' medical payments at a limit of $250 per person per accident in the basic coverage and broadened the premises medical payments to include accidents caused by any animal owned by the Insured, away from the premises.

A revised definition of Insured at this time broadened the policy coverage by including as insureds the Named Insured and his spouse and all relatives of either if residents of the same household. By the use of this definition the previous optional coverage for adult members of the insured's household was eliminated.

The following optional coverages were added:

1. Coverage for the liability of members of the household other than the named insured or his spouse or relatives of either could be added by endorsement.

2. Medical payments coverage for accidents arising out of the insured's activities away from the premises could be added by endorsement.
Several of the exclusions were broadened or eliminated. The watercraft exclusion was amended so that coverage was provided for all watercraft not exceeding twenty-one feet in length, except inboard motorboats, in addition to canoes and rowboats.

The elevator exclusion was eliminated and elevator liability coverage could be included in the basic policy at the proper premium charge.

The exclusion relating to Employers' Liability was eliminated with respect to residence employees of the named insured as this coverage was included under the basic coverages.

The exclusion relating to residence employees engaged in structural alterations, new construction or demolition operations was eliminated entirely.

The exclusion (g) (l) was amended so that Employers' Liability Insurance was applicable under Coverage A. This was done where a residence employee was entitled to benefits under a Workmen's Compensation Law.

Due to the combination of coverages under a single limit of liability the rating basis for the Comprehensive Personal Policy was changed drastically.

The following rates applied for basic limits of $10,000 for Coverage A, Bodily Injury Liability (including Employers' Liability) and Property Damage and $250 for Coverage B, Premises and residence employees' medical payments:
Personal Liability - including residence $10.00
Personal Liability - including residence with incidental office, etc. 15.00
Additional residences maintained by the insured - each 3.00
Employers' Liability and $250 Medical Payments - each employee 2.50

A comparison of these charges to the charges under the original coverage brings out the fact that although there was an increase in coverage and in basic limits of liability, there was a decrease of at least $5.00 in premium for any person carrying Bodily Injury Liability, Property Damage Liability and $250 Premises Medical Payments.

The Comprehensive Personal Policy revised in accordance with the 1944 changes was left intact until March of 1946 when these additional features were added:

1. Medical Payments coverage was extended to apply to activities of an insured or a residence employee away from the premises.

2. The definition of Insured was amended to include (a) any resident of the Named Insured's household who was under the age of twenty-one and in the care of an insured and (b) any person or organization legally responsible for watercraft owned by an Insured.

3. The definition of premises was amended to include vacant land on which a one or two-family dwelling is being constructed for the Insured by an independent contractor.

4. Under business pursuits the insurance was broadened to apply to any business pursuit of an Insured, if such
activities are ordinarily incident to non-business pursuits.\textsuperscript{5}

5. The definition of "occurrence" was deleted from the policy in order to include coverages for occurrences in addition to accidents and injuries accidentally caused. However, because of this change a new exclusion was added to clarify that the policy did not apply "to injury, sickness, disease, death or destruction caused intentionally by or at the direction of the Insured."

Aside from changes in wording of the policy, the next major change occurred in June, 1950 with the addition of a new optional coverage.

New Coverage

This new coverage which could be added by endorsement to the Comprehensive Personal Policy provided insurance protecting "the legal liability of the insured for fire, explosion, smoke and smudge damage to premises and house furnishings used by, rented to or in the care, custody or control of the insured provided such injury or destruction arises out of (a) fire, (b) explosion or (c) smoke or smudge caused by sudden, unusual and faulty operation of any heating or cooking unit."

Assumed liability by the insured was excluded with respect to this coverage.

\textsuperscript{5}See Part V, Page 48
A separate limit of liability applied to this coverage on an "occurrence" basis with a charge for the basic limits of $10,000 per "occurrence" of $5.00.

At the same time that this new coverage was authorized the provision under Employers' Liability Coverage was amended to include, without premium charge, the first two residence employees of all insureds for whom Employers' Liability coverage was provided.

Also, classifications were established to cover medical payments for injuries to persons on the premises because of a business conducted on the premises. This classification was for use in connection with residence premises with incidental office, etc.

In addition to these changes, in 1956 the definition of watercraft was broadened to include all outboard motorboats and inboard motorboats up to 50-horsepower. This definition also included coverage for sailboats, with or without auxiliary power, up to 26-foot in over-all length.

Physical damage Coverage

Much more important than this was the addition of a coverage for "physical damage" to property of others. The coverage was intended to pay for loss of property of others caused by an insured. "Loss" meant damage or destruction but did not include disappearance, abstraction, or loss of use. The importance of the new coverage should not be underestimated. This was the coverage necessary to pay
those many claims caused by children and for which there is no legal liability. With this new coverage it is possible for an insured to pay a property damage claim for which he felt morally responsible but for which he was not legally liable.

Several exclusions applied to this new coverage. It would not apply to loss:

1. Arising out of the ownership, maintenance, operation, use, loading or unloading of any land motor vehicle, trailer or semi-trailer, farm machinery or equipment, aircraft or watercraft;

2. Of property owned by or rented to any insured, any resident in the named's insured's household or any tenant of the insured, and

3. Caused intentionally by an insured over the age of twelve-years.

SUMMARY

By applying all of the changes in this chapter to the original Comprehensive Personal Policy an up-to-date Comprehensive Personal Policy is produced which is broader in scope and coverages available than any other liability policy presently provided by Casualty Companies.

However, a review of some of the interpretations and claims which have been made under this policy highlights the changes and indicates the need for such broad protection. These interpretations are discussed in Part V.
Interpretations

Although many of the policy interpretations were included in the description of coverage, there are several questions of coverage which have arisen repeatedly.

One of these often repeated questions concerns the actions of minors which cause bodily injury or property damage to another person or his property. This situation revolves around three major points:

1. Age of minor.
2. Cause of the accident.
3. Attitude of the companies.

The first point is important as the courts recognize that very young children are not capable of comprehending the consequences which accompany their actions. Thus, if a four-year-old boy trampled on or tore up a flower garden of a neighbor there is little chance of the boy being held legally liable for his actions. However, the important point is that the parents are not liable for the torts of their children unless the parents have been negligent in supervision of the children's actions. This is where the new "Physical Damage" coverage is important.

If the child has reached the age of reason, the cause of the accident becomes pertinent. If a boy of ten inadvert-
ently knocks a vase from a table at a birthday party, an accident has occurred and the company would have to pay for the damages as the minor is a named insured under the policy. On the other hand, if the boy had intentionally picked up the vase and hurled it to the floor the exclusion with regard to intentional acts applies and there would be no coverage under the Policy.

This question as to whether or not there is coverage under the Policy for intentional acts of minors has long been a "thorn in the side" of the Casualty Companies. Because of improper statements on the part of agents and incorrect advertising by some of the Companies, many assureds have been led to believe that the policy covers such things as a boy throwing a rock through a window.

To a certain extent the Companies have recognized this problem and have been on the lenient side in making "ex-gratia" payments for these claims. However, there is no strict answer to the question and the extent to which these claims are paid is today a matter of Company policy and not of legal liability.

The second main question which has been a point of controversy concerns actions of persons on business calls which result in injury to others. This problem was recently settled by the rewording of the exclusion relating to business pursuits as follows:

"The policy does not apply to any business pursuits of an Insured, other than activities herein which are ordin-
arily incident to non-business pursuits." The intent of this wording is to provide coverage for accidents which occur in the course of business which are ordinary to personal activities. Thus, if a man pokes his umbrella in a person's eye while on a business call the accident is covered as this accident could happen to anyone in inclement weather.

Another question along the same line was the question of whether the policy intended to cover children while delivering newspapers, shoveling snow or cutting grass or while baby sitting. These acts have been considered incidental to the personal activities of children by the Companies and as such are covered under the Policy.

Bicycles with motors attached are not covered away from the premises as they fall into the category of motor vehicles which are excluded by the policy.

Another interpretation of coverage states that a person may be held legally liable for damages caused by fire if it can be shown that the person was negligent. Thus, if a grass fire started by the Insured gets out of control and destroys a building on the adjacent lot the Insured would be liable and the Comprehensive Personal Policy would cover the damages.

Although the above interpretations cover the more controversial points of the Comprehensive Personal Policy with regard to coverage afforded, a review of some of the
actual claims which have been made under this policy pro-
vides a better understanding of the coverage afforded.

Claims Illustrations

In each of the following cases the defendant was an Insured under a Comprehensive Policy:

A case in Des Moines, Iowa, arose when the Insured allowed a neighbor, as an accommodation, to use his phone whenever he wished. One night, as the neighbor entered the house to use the phone, he was bitten by the Insured's dog and a successful suit for $10,000 was brought against the Insured.

In the suburbs of Philadelphia, a woman tripped over a section of sidewalk which had been raised above the ad-
joining walk by the gradual growth of a tree root. A Jury verdict of $11,000 was paid under the Policy for the owner of the tree.

In Pennsylvania, the Insured while playing golf hooked a drive shot into the windshield of a passing auto-
mobile and pieces of the shattered glass severed an impor-
tant muscle of the man driving the car. The claimant was a surgeon and the jury awarded him $3300 in damages.

After a man in Ohio had set a bonfire, the neighbor's six-year-old boy fell into it and suffered burns on the legs. The court upheld the father's contention that the Insured was negligent in starting the fire where the child would be attracted to it and returned a verdict for $7,500.
In Carbondale, Pennsylvania, the Insured, who had Comprehensive Personal Liability Policy covering his second floor apartment was visited by his nephew. The nephew turned on a water faucet during a short period when the Water Company had turned off the water and did not turn the faucet off again. When the water was turned on again the assured’s apartment and the apartment below were flooded. Damages of $232 were paid for repair of the apartment below the insured.

In Delaware, the Insured’s laundress fell and injured her leg when the back steps of the assured’s home pulled away from the house. Medical payments of $25 were paid.

An insured’s daughter ran out of a store and collided with a man knocking him down. Medical payments of $35 were paid.

In Toledo, Ohio, the claimant fell out of a hammock on the assured’s premises. Ten dollars medical payments were paid to cover the expense of an X-ray.

When the claimant at the assured’s residence attempted to open a French door by pushing on a glass panel, the glass broke and caused severe lacerations. Medical payments in the amount of $59 were paid.

Starting out on a deer hunting trip an inexperienced hunter unexpectedly discovered a deer near the edge of the woods. One shot brought it low, but when he went up to
claim his trophy he discovered he had killed a neighboring farmer's cow. The insurance company paid $130 in damages under the Comprehensive Personal Liability Policy.

Two hunters and their wives were hunting quail in brushy country when a bird was flushed between the two parties. One of the hunters fired at the bird and his companion was struck by birdshot in the knee, wrist, and eye and consequently he lost the eye. A judgment of $19,500 was rendered against the insured.

One unusual claim came about when the plaintiff in the case stepped into the defendant's office and shook hands. The defendant squeezed the plaintiff's hand so energetically that he broke a finger which later became infected. The plaintiff sued for $1700 and he won his case.

A cleaners' representative, while walking up to the Insured's house, stepped on a roller skate and fell. He sustained a fractured hip. Damages of $1700 were paid under the Insured's Comprehensive Personal Policy.

The Insured's cow escaped into a neighbor's garden. The neighbor, while assisting in getting the cow out of the garden, was leading the cow with a rope. The cow suddenly reared back throwing the neighbor to the ground. He suffered severe internal injuries from which he died a few hours later. The cost was $50,000.

In New York State, an invited guest, while talking to her hostess, was knocked down by a playful sheep dog
causing serious injuries and resulting in payment of $4000.

A suit was brought by a neighbor for injury to the eye of their five-year-old son caused by the Insured's son's inaccurate aim with an air rifle. Although the act was unintentional, the jury awarded $1800 to the boy plus $250 for medical expense.

These interpretations and claims prove that there is a need for this Comprehensive Personal Policy and that the Policy in its present form is one of the greatest bargains for avoiding catastrophic losses.
PART VI
AFFECTS OF SOCIAL AND ECONOMIC TRANSITIONS ON INSURANCE INDUSTRY

The progress and future of the insurance business depends on the extent to which the industry comprehends and adjusts to the vast changes which are transforming this country and its social structure. Those segments of the industry which adjust to these changes will progress; those which do not adjust will fall behind and fall behind rapidly.

We have responsibilities as a people in facing up to the realities of the forces bearing down on us today and in the future. Every nation lives or dies as its meets the challenges of its time. Businesses, including insurance, are no different.

Even the individual firm or agent must adjust to the economic and social forces bearing on them or they will be overwhelmed.

In the past the industry as a whole has been responsive to depressions, catastrophes, and other problems but it has not been as quick to seize the opportunities which the past decade of unparalleled prosperity has offered. A major question today is whether or not the industry is willing to make the internal changes and other adjustments necessary to meet its present challenges and move on to even greater levels of attainment, hoping for reasonable underwriting profits.
Population Growth

Consider first the question of population growth. The revolution going on in medical technology has led to and will lead to even greater population growth. Dr. Paul Dudley White, President Eisenhower's heart specialist, made a prediction that the progress in medicines war against infectious diseases indicates that the next generation may look forward to one hundred and ten years of healthy life, ended finally by a heart attack. Further, the increase in the birth rate in recent years will lead to even greater population levels. The population growth ahead virtually guarantees greatly expanded demands on industry. This means greater industrial productivity will be essential to support this population, and clearly communicates the questions to be faced. The greatly expanded capital needs of industry must be met in part, at least, through insurance company investments. This will increase the pressure for vast amounts of equity capital and tests the industry's ability to furnish such capital. Further, this raises the question of possible Government control over the timing and direction of institutional investment as a technique to control economy.

Population increases have led to other problems. Metropolitan Centers have become increasingly congested and there has been a continuing flight to the suburbs, despite a strong interest in urban renewal. This has produced a
number of insurance problems, such as increases in the frequency and severity of accidents, merchandising methods, sales operations, and centralizing of accounting techniques.

**Economic Changes**

The redistribution of wealth has led to a great expansion of the middle income class leading to revolutionary changes in methods of merchandising that have had a direct affect on insurance marketing. Failure of the Stock Agency Companies, as a whole, to recognize the emergence of the so-called "blue collar" market following World War II led to the loss of substantial amounts of business to more forward looking managements. The constant pressures to have a higher and higher standard of living and its relationship to saving and investment has been a contributing factor. The desire for higher standards of living coupled with our tax structure has produced a large middle class which to a considerable extent is homogeneous in terms of insurance needs. Already this development has lead to the introduction and successful merchandising of package policies. Increasingly it will lead to more and more installment purchasing with all of its implications with the insurance business. Further, this group of buyers is price conscious. A whole new market characterized by a price conscious personality has grown seemingly overnight, throughout the country and has threatened traditional methods of merchandising.

The trend toward the "Package" of all commodities and the
phenomenal growth of installment buying are probably also by-products of redistribution of wealth.

This redistribution of wealth (combined with the Veterans Programs) has also seen a marked increase in the level of education in this country. This means, over-all, a better educated public and this has implications as to the type of and quality of sales personnel essential to operate successfully.

Increase in Claims

Further, the public is increasingly becoming claims conscious. The Legal Fraternity has cooperated and higher loss ratios have resulted. But this in and of itself is not wrong since insurance is supposed to pay claims. The real problems involve the increasing accident frequency, a judicial system which is straining to meet the burden of a large number of cases, inflation and companies (and individuals with convictions or without) without the courage of their convictions. As a result of some unreasonable jury awards many companies are settling claims out of court for substantially more than they feel is justified. This whole business has been complicated by inflation and the National Association of Claimants' Compensation Attorneys. Increasing underwriting losses, particularly in the Automobile Liability field are placing the traditional companies in an unpleasant position. If they underwrite properly to stay within the present rate structure to compete with the specialty com-
panies they will be faced with the possibility of Governmental intervention through compulsory insurance or some form of State insurance. If they do not underwrite carefully, then their rates cannot in the nature of things be adequate since they are based on an "average".

When an increased average rate is filed and approved, the best risks tend to change to a lower priced carrier and the average rate will be inadequate for the remainder of the class of risks previously insured. Raising rates will not alone solve the problems involved.

Results of Inflation on the Insurance Industry

It is essential in a paper of this type that I discuss the affects of a little bit of inflation on the insurance business. In the first place it must be remembered that rates for most Property and Casualty lines are closely regulated and are based on past experience. This means that unless provision is made for it, the premiums collected based on past years experience for the purpose of providing insurance today cannot in the nature of things be adequate for tomorrow's losses. The lag which exists between the date loss and expense statistics are available and the date rates are filed, approved and put into use complicates the problem. The question of term policies and delays in claim payments due to litigation or otherwise compounds the problem.

An important impact of inflation on insurance firms
is to reduce the return on stockholders' invested capital. This means that new capital will be difficult to secure, thus jeopardizing the ability of the industry to have adequate capacity for the future demands of industry. Only through dynamic, creative and courageous management can the challenges faced by the industry today be met. Change is inevitable, but those managements which sense the forces bearing down on them and harness their power will reach new heights of production and profit. Needless to say, it is felt here that the managements of the insurance industry must meet their responsibility to the nation and to themselves.
PART VII

THE INTERRELATIONSHIP OF ECONOMICS AND THE INSURANCE INDUSTRY

The assets of the Insurance Companies of the United States in 1956 climbed to more than one hundred and twenty-two billion, they employed over eight hundred thousand men and women, and their income from insurance premium payments was approximately twenty-four billion.

Yet, notwithstanding that approximately 6 per cent of our 1956 gross national product was paid for insurance protection, while in the same period of time only 4 per cent, approximately, went for rents and 3 per cent to 3½ per cent for interest, economists have found it difficult to classify insurance in the field of economics, though they are able to classify rents and interest with ease. As pointed out by Dr. S. S. Huebner, "Economists have experienced difficulty in assigning to insurance a place in the Science of Economics. They have been accustomed to grouping economic activities under such time honored classifications as "Production", "Exchange", "Distribution", and "Consumption". Insurance has been to them a riddle, incapable of being assigned definitely to any one of these major divisions. This difficulty will remain until the basic nature of insurance is more clearly understood.

This failure to recognize the vital role played by insurance in our economy may have been understandable when
we were an agrarian nation, but the lack of understanding in
the industrial atmosphere of today's United States is puzz-
ing.

The question that comes to mind is why a force as vital to the economic development and growth of the country should continue to be considered as only one of the least middleman functions, and not recognized for what it is -- a productive arm of management.

Actually the property and casualty segment of the insurance industry is becoming more and more subject to the problems and risk which beset any other type of enterprise, for today commercial and industrial enterprises are demanding that insurance companies underwrite risks which it is extremely difficult to measure in advance the degree of risk because the extent of the hazard is an unknown factor. An excellent example of the problem this presents can be found in the insuring of Nuclear Energy Plants, both in the construction and operation stages, for peace time pur-
poses.

It is because of the insurance industry's financial and underwriting interest in the activities of the industry that it insures, that insurance personnel is forced to understand and cope with the many and varying problems of each of the commercial and industrial organizations it insures. It has been aptly said that "There is probably no calling requiring so intimate knowledge of every other as this (insurance). He who assumes the risk of a flour
mill, for example, should know more of its dangers than
the miller himself." Property and Casualty Insurance is a
dynamic business; it has had to be to keep pace with the
ever changing and expanding industrial and economic devel-
opment that has taken place in the United States. The
manner in which it has met the challenge merits the con-
clusion that insurance in an entrepreneurial and produc-
tive function, and this is best demonstrated in the field
of Liability Insurance, a form of protection closely tied
to industrial innovation and expansion.

Insurance for the liability hazard has demonstrated
astonishing growth since the turn of the century. This
growth can be attributed to the tremendous increase in the
use of automobiles, the development of commercial aviation,
and atomic energy for peace time use. The Insurance indus-
try has met these challenges head-on and has been able to
keep pace with them. It has only been able to do this
through management which, more and more considers proper
risk handling a prerequisite to productivity and profits.
Therefore, they place this responsibility in the hands of
"Risk Managers", experts trained by experience and educa-
tion to handle such work. The job of the Risk Manager is
to prevent his company from ever suffering a catastrophic
uninsured loss of profits, assets or resources.

Certainly then the contribution of insurance to the
automotive industry, to commercial aviation, and to the
development of atomic energy for peace time uses helps to dramatically point out that the economists or others, who continue to view insurance as a middleman function are greatly in error. Insurance should be recognized for what it is -- a vital, production arm of management.
PART VIII
THE HIGH COST OF LOSSES ON PROPERTY INSURANCE

Loss costs are of tremendous interest today because they are already at an extremely high level and are continuing to grow at an alarming rate.

The premium dollar in Property and Casualty Insurance is divided into two parts, the loss or pure premium portion and the expense portion. Both are equally important but it is my purpose here to consider the "loss portion" (including the cost of adjusting claims) of direct or "first party" lines of insurance.

Many causes are believed responsible for the increase of first party loss costs. Here are several that have affected the trend in almost every line of insurance:

1. Inflation

The much discussed inflationary spiral is, of course, one of the basic reasons for increased loss costs. Although premiums have increased, they have not kept pace with the increasing cost of repairing or replacing damaged or lost property. Unfortunately, this important fact had either been overlooked or ignored for many years, and it is only within the last three or four years that there has been any concerted effort by the insurance agent or broker to have insurance written to value. By not selling insurance to value, the industry loses valuable premium dollars that
would otherwise have been available for the payment of the ever increasing number of losses.

2. **Broadened Coverage**

During the last ten years the insuring public has had the benefit of broader coverages available under the policy forms, and has gained a better understanding of insurance coverages. Combined, these two factors have lead to an increase in the loss frequency. The claims presented are not necessarily larger, but there are many more nuisance claims for which coverage was never intended when policy forms were prepared and rates promulgated. Any claim presented to an insurance company for less than $15 costs the Company more to process than the ultimate claim payment itself.

3. **Rigid Rate Regulation**

While inflation and broadened coverages have continued to take an ever increasing portion of the first party premium dollar, rigid rate structures required by State regulatory bodies have further compounded the problem. Generally speaking, rates are predicated on the premise that approximately 50% of the premium dollar is returned to the policyholder in the form of loss payments. Therefore, when loss payments exceed the estimated 50% an increase in rates is indicated. Should the loss payments continue to exceed the estimated 50%, an increase in rates is indicated. Should the loss payments continue to exceed the estimated 50%, and
should an indicated rate increase be denied by State Regulatory authorities the insurance carrier's anticipated profits, though small, are lost completely. These are a few of the most important problems that face the insurance industry and its high loss costs. I would like to offer several immediate solutions that would help tremendously in lowering these costs. While these solutions are not easily attainable they are certainly practical.

The salesman is traditionally the first line of defense in underwriting, and it is important that this line of defense be tightened. The salesman should have a more intimate knowledge of the risk he is offering to the insurance carrier and anyone else, and it is his responsibility to more carefully underwrite business at the source.

The insurance carriers as well as the salesmen must improve their underwriting methods. Many insurance carriers accept a great percentage of their business without inspections. An inspection of at least larger risk would often enable the companies to avoid a line that is undesirable from an underwriting standpoint, and thus a future disastrous loss might be prevented.

The insurance companies should also attempt to keep the average limit of liability on their policy as high as possible. If the average limit of the policy is too low, the company's loss ratio, of necessity, will suffer. Many times the rate for a particular peril is the same throughout
an entire State although statistics indicate that the degree of risk is different in various parts of the State. It is conceivable that more statistics should be kept by localities so that a rate differential could be established to charge a proper premium in localities where loss ratios are higher.

The increased use of deductibles would help to eliminate the necessity for processing and paying many nuisance claims. However, before a deductible is acceptable to the insuring public there must be a sufficient premium differential between full and deductible protection, for the latter to be financially attractive.

If payment of fraudulent claims is to be curtailed it will be necessary to make it mandatory that medical bills and other evidence of loss be presented in writing before a claim is paid.

While there are other immediate and long range solutions to this problem, I feel that the above solutions are workable and could be used without any detriment to the industry.
PART IX
LACK OF PUBLIC UNDERSTANDING OF THE INSURANCE FUNCTION

Communication

The business world today is paying a great deal of attention to the problems of communication. We see many articles in trade journals, business magazines, and other media about the problems of communication between executives and subordinates, between industry and the public, between government and the public -- and in almost all of these articles and analyses of the problem, we find indications that communication is frequently a one-way street, that it is difficult to reverse the process and have communications flowing smoothly in the opposite direction.

In the insurance industry I think the line of communication from the public to the company is possibly more open than that in the other direction. The best that can be said on this subject is that the public does not understand the insurance business -- and it is the fault of the insurance industry. Perhaps we have fallen into an "Ivory Tower" way of thinking. Perhaps we are too high-minded to explain our business or perhaps we underestimate the public's ability to understand our business.

There are many obstacles, it is quite true, to satisfactory communication from the insurance industry to the public. We have the individuals past experience with the
insurance companies. If it has been a pleasant experience it generally is not remembered as well as an unpleasant one.
The very size of the insurance industry, and the size of a single company is often frightening to an individual, and he feels at a disadvantage. It is only human to fear and distrust what we do not know or do not understand, and the complexity of the operations of a single company must be made simpler and more easily explainable to the public who have no notion of the intricacies of production, underwriting, claim handling, investments and regulation.

The very words and phrases we use in the insurance business are foreign to the public in general, and quite frequently have an entirely different meaning to us than they do to an insured or a claimant. For example, let us take the word "adjust". What does an agent mean when he assures a claimant that a loss will be adjusted properly? Stop, and think about that. Probably our greatest problem however, is the fact that it is very difficult indeed, to make a business so concerned with statistics, formulae, and so on appear to be human, appealing or personal in the eyes of the public. There seems to be no doubt that people are first of all, interested in people; second, in things, and last of all, in ideas. The insurance business, dealing as it does with intangibles, has a real problem when it comes to attracting attention or interest.

There are, however, many aids available to us in
presenting ourselves to the public. In the first place, the public is naturally trusting. People these days are also better informed, and more sophisticated than they once were.

Means of Promoting Public Understanding

People in general are willing to respond if treated with respect, and we have the solid ground of our past fair or generous treatment upon which to build. Institutional advertising has been a big help in the past, and then, a factor not to be overlooked, there is the natural loyalty of an individual to an agent or a company with whom he has done business. This loyalty is at times surprising, but it most certainly exists and can be of great help, if it is recognized.

Few policyholders realize that the insurance industry provides a reservoir from which all draw protection. This reservoir is made up of assets and surplus of all the companies doing business and everyone should be shown that all this money is not accumulated just for selfish gain, but to provide that reservoir protection for all. An individual should be led to realize that it is his obligation to help protect that reservoir from unwarranted dissipation by means of unfair, unjust, or fraudulent claims.

Most communication between the insurance company and the public has been through the medium of the insured's agent, company soliciting representatives, and claim ad-
justers. In general, these people do not have a complete enough education of the insurance industry as a whole to promote the proper understanding that is necessary.

It seems imperative that any attempt to inform and instruct the public must be more than just a public relations program to convince everyone that everything that insurance companies and agents do is motivated by interest in the public welfare. A campaign to educate people about the functions of the insurance business should be tied-in with something concrete which people can recognize as directly affecting them.

It seems logical that the segment of our society with the largest economic stake in this whole problem would make a concerted and concentrated effort to do something about it. Such a program could be a real service to the public -- not just a by-product of doing business as a lot of service in the past has been. It will also give the insurance business the best excuse they have had in a long time to explain in practical, easily understood terms how the insurance fits into the over-all economic scene.

Within the ranks of the insurance industry can be found some of the most competent brain power in the United States. If the advertising world has been able to sell us on cars that cost the price of houses, and grow larger and more powerful every year; yes they have sold us a whole new way of life. I certainly believe that with the combined
efforts of the insurance industry and the advertising industry, utilizing the best lines in the abilities of both groups the part the insurance industry plays in our economic life can be brought home forcibly to the public.

There never has been a time in the insurance business when more depended on the ability of the industry to explain its function to the public. If there ever were a time for all of us to examine our motives, our cliches, and our points of view, now is that time. Another time, another opportunity, may never come to the insurance business as we know it now.
CONCLUSION

The preceding sections have been pointing out the total economic effect on the entire insurance industry. There have been changes since this thesis was started that have required me to revise certain sections.

At the present time it is possible to buy the Comprehensive Personal Coverage in a separate policy, endorsed to an Automobile Liability Policy, as a part of a Homeowners' Package Policy or as a part of a Combination Residence Policy. There is a good possibility that the Combination Residence Policy may be discontinued because of less frequent use since the introduction of the Homeowners' Package Policy.

I hasten to say that the future of the Personal Liability Coverage is very bright. However, I do feel that the insurance industry must and will have to do something about the broad coverage that is now provided. It has become quite obvious that there is not enough premium in the coverage to adequately take care of new hazards and exposures that have developed since this coverage was last broadened.

The increase in leisure time of the populace is one of the major trends that has resulted in the new hazards for which there is no premium allowance. There has been a notable increase in the number of non-occupational injuries
in the past ten years.

It has been apparent, too, that increased leisure will permit more time for activities which will undoubtedly result in higher loss ratios and new "strains" on present personal coverages such as our Comprehensive Personal Liability Policy.

The most notable examples of what new hazards have been developed because of leisure time are: High speed motors for the water skiing enthusiasts, backyard wading and swimming pools, and the so-called "go-cart" or speedmobile. As I indicated previously, there is not enough premium to cover these new hazards yet, the basic personal liability policy does cover them.

After reading current insurance magazines and noting the frequency and severity of claims arising from these un-contemplated hazards, I have reached the conclusion that a change in coverage and/or premium charge must be made soon.

In a recent survey of 25,151 persons, it was discovered that 30% or approximately 7,000 persons carried Comprehensive Personal Liability coverage compared to 90% or approximately 21,000 persons who carried Automobile Liability coverage. Judging from these figures, it is evident that the average individual is at least aware of his responsibilities toward his fellow men and especially so with regard to automobile accidents. The need for Automobile Liability Insurance has been widely publicized by insurance
companies, safety commissions, newspaper accounts of large losses, and Financial Responsibility Laws. The public is constantly being reminded of the dangers in connection with automobiles.

To date, this has not been true of Personal Liability Insurance. A comparison of the percentages shown above indicates the tremendous task which faces us in educating the public about Personal Liability Insurance. With the increasing cost of everything, including the cost of legal defense and of claims awarded by the juries, the public is now, more than ever, subject to catastrophe losses which may make hope for the future much worse, than the world situation appears to be. For only ten of today's inflation dollars, an individual can protect himself from these losses, and make the future secure.

In view of these facts, there can be no doubt that the future for the coverage is bright. The need for the coverage has always existed and now the insurance companies are providing a truly comprehensive answer to this need.

I forecast that within the next 25 years this form of insurance coverage will be as well known and widely purchased as automobile insurance is today.