# *Blanket & First Loss Policies*

By Mike McLean FCII FCILA FUEDI ELEA, Sedgwick

CILA Property Special Interest Group

July 2018

## Introduction

This paper provides an introduction to blanket and first loss policies, explaining why and when they are most commonly adopted.

## Blanket Policies – when are they used?

Blanket policies can be found in a variety of business sectors but specifically in relation to property risks they are common in commercial and domestic policies. They can also be found on business interruption and goods in transit policies.

Under a property policy, cover can be arranged on a specific scheduled property location or, where there are multiple properties, it is usual for cover to be arranged on a **blanket policy** basis. A blanket policy provides cover for one category of property at the same location or the same category of property at multiple locations.

Blanket cover obviates the Insured from arranging individual scheduled policies for each insured property at a specific location, with a single sum insured per property. It is usual when considering the overall risk and blanket sum insured to separately declare a value per risk location but overall cover will be provided on a blanket basis, with a single sum insured covering multiple locations.

## Blanket Policies – Value at Risk and Adequacy of Sum Insured

The principle benefit of a blanket policy, aside from the insured not having to purchase an individual policy per item or location, is that it can reduce the risk of under insurance. Although the Insured should ensure that the overall Blanket Sum Insured is adequate, there is risk that sometimes there may be an unintentional under declaration of the individual stated values per location when calculating the overall Blanket Sum Insured.

When a claim arises the Insured may suggest that despite the declared value on a specific location being inadequate, average will not apply as the cover is arranged on a blanket basis across all sites and overall the Sum Insured is adequate. This argument may need careful consideration by Insurers who may reserve the right to perform sample value at risk checks on several sites, or indeed a check of the values on every site, to reach a decision on whether average should apply based on the adequacy or otherwise of the overall blanket sum insured.

A further point often made when a location's declared value is inadequate is that this is a limit and that the overall blanket sum insured is adequate. To cater for these situations Insurers, particularly on Real Estate wordings, have amended the average condition to state that average applies only where the overall sum insured is inadequate rather than the value allocated to the loss address. Waiver of average clauses are also being introduced where the Insured has obtained a professional valuation to set the sums insured.

Blanket policies further enable high risk locations to be included in the overall insurance programme compared to a single scheduled policy where a specific location might have been otherwise difficult to insure in isolation, or enhanced premiums would apply.

Although blanket cover is offered across a broad range of business sectors it is more predominant on property owner's policies; housing association policy covers as well as domestic policies which will provide blanket or unlimited sum insured cover for both buildings and contents.

## First Loss Policies

A **First Loss policy** is a policy that provides only partial insurance cover to a pre-agreed value or limit in the event of a claim. The policyholder agrees to accept an insured amount for less than the total value of property at risk.

It is usually arranged for the following reasons:

- There are difficult underwriting situations, e.g. poor physical hazard or locality
- It is not possible to assess the full value at risk
- The Insured envisages that they will not be subject to an event which is likely to give rise to a total loss of the property in a single claim
- Cover is difficult to arrange due to the type or unusual nature of the property at risk

It is incumbent upon the Insured to disclose the likely total value of all property at risk but the basis of the cover will reflect the Insured's estimation of the maximum loss scenario and Underwriters' agreement of acceptance of risk.

Insurers normally agree to accept the risk on the basis of a declared value of property likely to be at risk on any one occasion.

Whilst First Loss cover can be arranged upon a specific type of insured property, e.g. stock, buildings, debris removal, unusual types of chattels, cover can also be provided on a peril specific basis. For example, theft cover can be arranged for stock where it is not envisaged that all of the insured property could conceivably be stolen e.g. within a large warehouse. Cover can also be arranged on a First Loss basis under a material damage or business interruption policy wording.

## Benefits and use of First Loss Policies

The benefits of a First Loss policy to the Insured and Insurer are as follows:

- A lower premium in acceptance for partial cover
- Cover can be arranged where the Insured has difficulty in establishing values, particularly small businesses who do not carry detailed stock inventories
- Areas where it is accepted by both parties that there is an unlikely situation that a total loss will occur

- Property where it is difficult to assess the overall risk but for which some insurance cover is required
- Buildings of an old or obsolete type where the rebuild cost far outweighs the realistic value (e.g. a $19^{th}$ century textile mill).
- Unusual risks
- No Underinsurance or Co Insurance clauses will apply.

In summary, claims under Blanket and First loss policies are no more complicated than under any other policy. Indeed, due to the greater latitude both provide, claims under these policies are arguably in the main more straightforward. As always, however, make sure you obtain and read the applicable policy wording to ensure you understand how the cover has been arranged.