

Treaty Tips

Every Word Counts

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The general rule of construction that contracts be read so as not to render any provision superfluous applies equally to reinsurance arrangements. For example, in *Imagine Insurance Co. v. State of Florida*, a Florida state appellate court applied this rule to allow a reinsurer to offset against a loss indemnity payment an amount equal to certain reinsurance premiums that were scheduled to be paid after the indemnity payment to the reinsured was made.

The reinsurance contract provided that “[a]ny loss payments from the Reinsurer shall be offset against any *outstanding* premium installments *due for the Contract Year*.” The lower court sided with the reinsured’s contention that the offset was inappropriate because no premium installments were “due” when the loss indemnity payment was made. The appellate court reversed, reasoning that the dictionary defined “outstanding” to mean “uncollected” and “unpaid.” Moreover, according to the court, to construe the contract to permit offset only for past due and unpaid premiums would render superfluous the phrase “*due for the Contract Year*.” The ap-



Check the dictionary

pellate court therefore concluded that the “more logical meaning of the Contract ... contemplates the Reinsurer will offset, against any loss payments, the uncollected or unpaid premium installments remaining for the Contract Year.”