

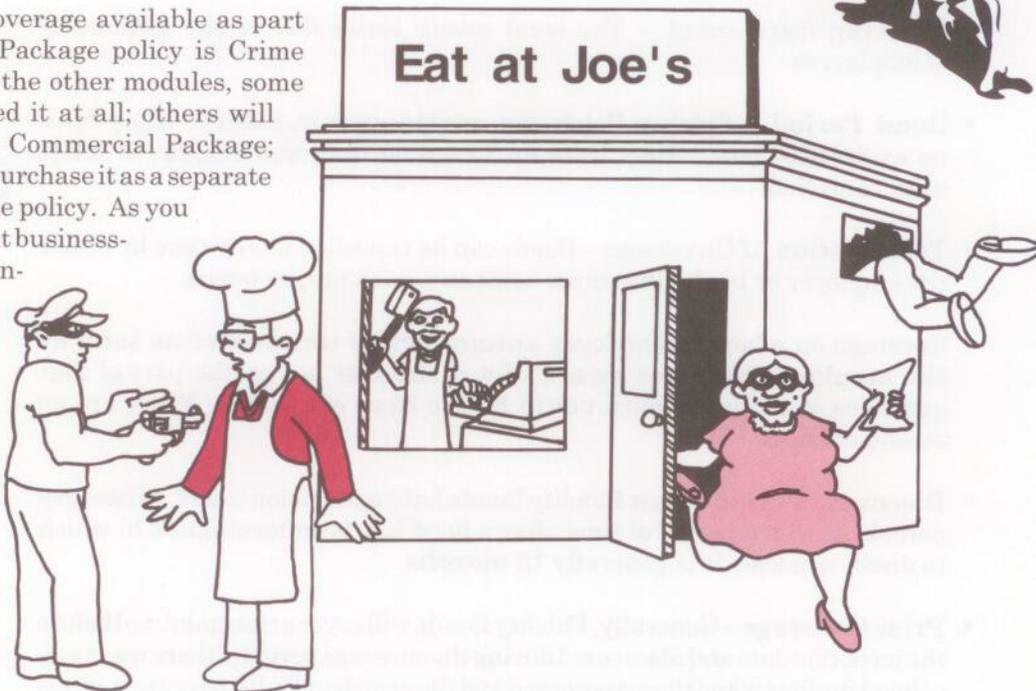
COMMERCIAL CRIME

11

SOURCE:
ISO Commercial
Crime-2006



1 Another potential coverage available as part of the Commercial Package policy is Crime insurance. As with the other modules, some businesses don't need it at all; others will buy it as part of the Commercial Package; and, still others will purchase it as a separate and distinct monoline policy. As you would guess, different businesses have different concerns about crime. A jewelry store might be most concerned about a burglary or a robbery. A stock brokerage, on the other hand, might be more concerned with embezzlement. Traditionally, Crime insurance has been divided into two piles:



- Employee theft
- Regular theft

- 2 In years past, employee theft was covered by a Fidelity Bond, and regular theft (like burglary or robbery) was covered by Crime insurance. The modern Commercial Crime policy allows a business concerned with both exposures to cover each under a single policy that combines Fidelity Bond coverage with regular Crime coverage. Obviously, if a business needs only one or the other, each can be purchased separately.
- 3 For our discussion, we will first examine the Fidelity Bond and then the basic Crime coverages. In each case, you should familiarize yourself with the basic definitions. Finally, we will provide an overview showing how Crime insurance is provided through the modern Commercial Crime contract.

FIDELITY BONDS

1 As the biggest portion of losses to American business is attributable to employee theft (insiders), we must provide protection from this exposure. This is the purpose of a Fidelity Bond. Fidelity comes from the Latin word for *faithful*, and faithful performance is what is guaranteed by a Fidelity Bond. There are three parties involved in the bond, which are the:

Principal – The party who has agreed to fulfill an obligation (the employee).

Obligee – The party to whom the obligation is owed, and the one who is paid if the principal defaults (the employer).

Surety or Guarantor – The insurance company that issues the bond and agrees to pay if the principal defaults.

FIDELITY BOND BASICS

- **Insuring Agreement** – The bond covers losses due to the dishonesty of employees.
- **Bond Period** – Fidelity Bonds are **continuous** in nature. They have no expiration date. They have an inception date and remain in effect until cancelled.
- **Termination of Coverage** – Bonds can be cancelled at any time by either the employer or by the insurance company, with proper notice.
- Coverage on a bonded employee **automatically terminates as soon as the employer becomes aware of a dishonest act** on the part of that employee which is or which **could be** the basis of a claim. There are no second chances.
- **Discovery Period** – Most Fidelity Bonds have a provision called a discovery period. This is a period of time after a bond has been terminated in which to discover a loss. It is generally **12 months**.
- **Prior Coverage** – Generally, Fidelity Bonds will cover acts committed before the inception date and discovered during the coverage period **if** there was a prior bond in effect when the act occurred and the prior bond's discovery period has simply expired.

Notes

Mr. Inside

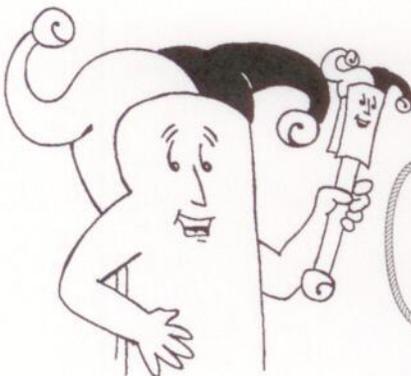
“P”

“O”

“S”



... after they've gone

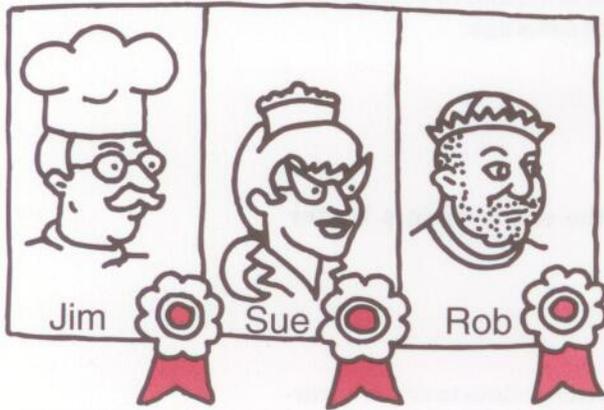


INSURANCE LITE

Woman: Someone broke in and stole my television set.
 Agent: Was it a portable television?
 Woman: Evidently!

TYPES OF FIDELITY BONDS

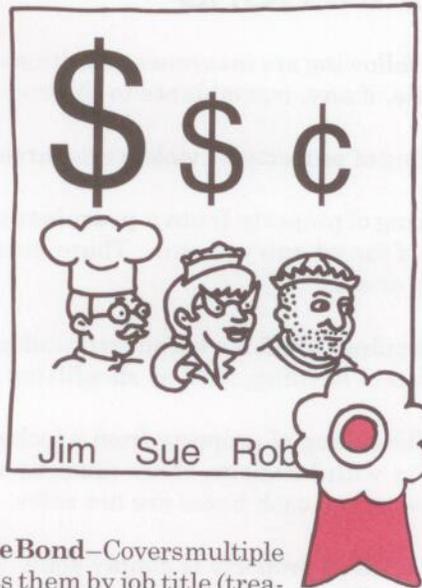
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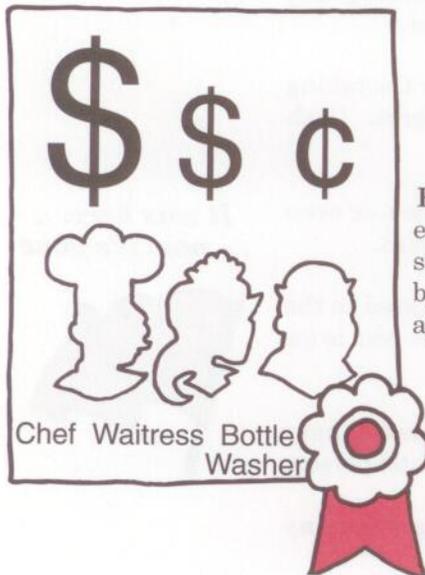
Individual Bond – Covers one named employee.

2

Name Schedule Bond – Covers several named employees for amounts that could vary depending upon the level of exposure.



3



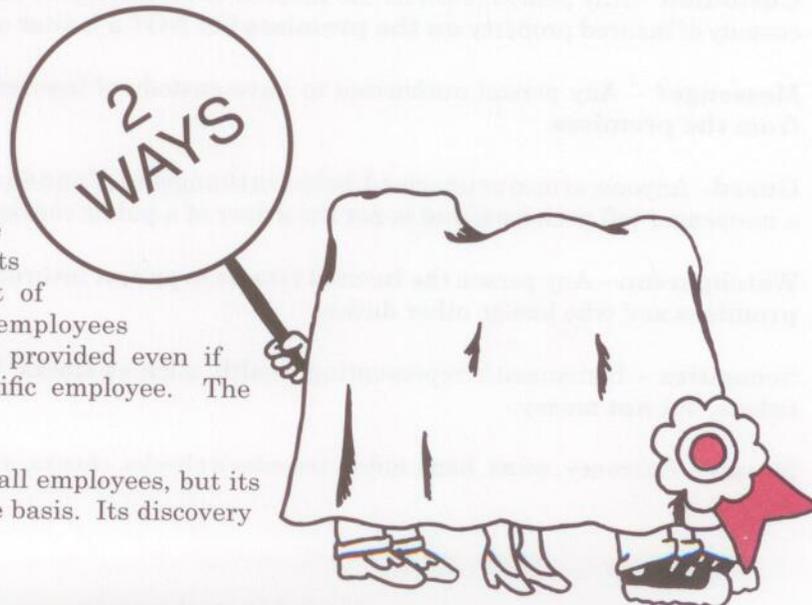
Position Schedule Bond – Covers multiple employees, but lists them by job title (treasurer, bookkeeper, cashier) rather than by name. As before, different amounts may be applied to different positions.

4

Commercial Blanket Bond – Covers all employees and its limits are expressed on a **per loss** basis, i.e., its limit of liability is the face amount of bond, regardless of the number of employees involved in a loss. Coverage will be provided even if a loss is not attributable to any specific employee. The discovery period is **12 months**.

5

Blanket Position Bond – Also covers all employees, but its limits are expressed on a **per employee** basis. Its discovery period is **24 months**.



- 1 For example, if an employer has a \$100,000 Blanket Position Bond and two employees working together steal \$200,000, there would be adequate coverage.

$$\begin{array}{r} \$100,000 \text{ coverage per employee} \\ \underline{\quad \times 2} \text{ employees involved in the theft} \\ \$200,000 \text{ coverage} \end{array}$$

- 2 Memory Device: The **Blanket Position** Bond leaves the employer in a **better position** in the event of employee conspiracy.

CRIME DEFINITIONS

- 3 Please note that the following are *insurance* definitions as they relate to crime coverages. They bear little, if any, resemblance to the criminal law definitions.

- 4 **Robbery** – The taking of property by violence or threat of violence **from a person**.

*Robbery...
Violence/person*

- 5 **Burglary** – The taking of property **from a premises** that is closed and locked tight and leaving marks of forced entry or exit. There must be visible evidence of force at the point of entry or exit.

*Burglary...
Violence/building*

- 6 **Theft** – Any act of stealing. Theft is a broad term and includes robbery and burglary, as well as other forms of stealing, such as shoplifting and embezzlement.

- 7 **Safe Burglary** – The taking of property from a locked safe or vault, or the taking of the safe itself. As with burglary, there must be visible marks of force. Cash registers, cash drawers and cash boxes are not safes.

- 8 **Disappearance** – Insured property is simply gone. There is no evidence, or even a probability, of theft. Disappearance is covered only in "All Risk" policies.

*It was here...
...now it's gone*

- 9 **Extortion** – Surrender of property as the result of a threat communicated to the Insured to do bodily harm to a named Insured, a relative or an employee who is (or allegedly is) being held captive. You and I would call this kidnapping.

- 10 **Custodian** – Any person (such as the Insured or an employee) authorized to have custody of insured property **on the premises** but NOT a janitor or a watchperson.

- 11 **Messenger** – Any person authorized to have custody of insured property **away from the premises**.

- 12 **Guard** – Anyone, armed or unarmed, between the ages of 17 and 65 who accompanies a messenger (off premises) and is not the driver of a public conveyance.

- 13 **Watchperson** – Any person the Insured retains to protect insured property **on the premises** and who has no other duties.

- 14 **Securities** – Instruments representing wealth, such as stocks, bonds, tokens, or tickets, but **not** money.

- 15 **Money** – Currency, coins, bank notes, traveler's checks, checks, and money orders.



COMMERCIAL CRIME INSURANCE

- 1 A Commercial Crime policy can include coverages for losses due to both outsiders and insiders. It can be written as a monoline policy or as part of the Commercial Package Policy. As part of the package, it must be accompanied by the **Common Conditions** and **Common Declarations**. If it is issued as a monoline policy, then a separate Crime Declarations page must be used. In either case, the crime coverage part consists of:

- Crime Declarations Page
- Crime Provisions Form
- One or more Insuring Agreements
- Applicable Endorsements



- 2 There are eight coverages available under the Commercial Crime policy that are designated as Insuring Agreement 1 through Insuring Agreement 8. The policyowner may choose any or all of these.

Insuring Agreement 1 - Employee Theft

Insuring Agreement 2 - Forgery or Alteration

Insuring Agreement 3 - Inside the Premises - Theft of Money and Securities

Insuring Agreement 4 - Inside the Premises - Robbery or Safe Burglary of Other Property

Insuring Agreement 5 - Outside the Premises

Insuring Agreement 6 - Computer Fraud

Insuring Agreement 7 - Funds transfer fraud

Insuring Agreement 8 - Money Orders and Counterfeit Paper Currency

*"Exciting,
isn't it?"*



COMMON CONDITIONS

- 3 Though Crime policies generally contain the standard provisions regarding cancellation, territory, assignment, appraisal, etc., there are a few unique conditions you should note:

- 4 **Records** – Insureds are required to maintain accurate records with regard to the value of the insured property.

- 5 **Notice to Police** – In addition to the usual notice requirements, if a loss occurs, the Insured must file a crime report with the proper law enforcement agency.

- 6 **Settlement** – For property other than money or securities, settlement is on the basis of ACV, with the insurance company's option of repairing or replacing. For money, settlement is on the basis of the face value of the money. For securities, settlement is on the basis of the value of the securities on the close of the market on the day the loss is discovered.

- 7 **Loss sustained and Discovery Forms** - In the area of crime, it is not unusual to discover losses until long after they have occurred. This problem is handled differently by the two forms of Crime coverage available - The Loss Sustained Crime Form and the Discovery Form.

- 8 Under the Loss Sustained Form, losses that occur during the policy period and discovered up to one year after the policy period are covered. Losses discovered after the one year **discovery period** are covered by subsequent policies as long as there is no gap in coverage.

*show what's
been taken...*

*...call the
doughnut
shop*

- 1 Under the Discovery Form losses are covered no matter when they occurred if they are first discovered during the policy period. (Much like the Claims Made form of the CGL).

COMMON EXCLUSIONS

- Acts by the Named Insured
- War
- Nuclear hazard
- V&MM
- Government action
- Indirect losses
- Legal Expenses

THE CRIME INSURING AGREEMENTS

Insuring Agreement 1 - Employee Theft

- 2 **Two Types of Employers** - There is both a loss sustained and a discovery form for standard business structures (sole proprietorship, partnership, corporation) **and** for **government entities** that have an employee theft exposure.

- 3 **Covers** - Money, securities and other property from employee theft. There is no coverage for an employee following the discovery of a dishonest act by that employee . . . no second chances.

- 4 **Exclusions** - Losses which can only be proven by an inventory shortage or profit and loss computations.

Insuring Agreement 2 - Forgery or Alteration

- 5 **Covers** - The forgery or alteration of **outgoing** checks or drafts. It does **not cover** incoming checks that have been forged.

- 6 **Exclusions** - Does not cover acts of the Insured or the acts of an employee.

- 7 **Definitions** - All losses caused by one person constitute a single occurrence - hence only one deductible.

Insuring Agreement 3 - Inside the Premises - Theft of Money and Securities

- 1 **Covers** - Money or securities inside the premises or inside a bank against **theft, disappearance and destruction.**

Exclusions

- Accounting Errors
- Dishonest Acts of Employees
- Trickery
- Fire Damage to the Premises
- Vending Machines
- V&MM
- Voluntary Relinquishment
- Computer Fraud

Insuring Agreement 4 - Inside the Premises - Robbery or Safe Burglary of Other Property

- 2 **Covers** - Property other than money and securities that might be the subject of a robbery when the business is open and the subject of a safe burglary when the business is closed.

Special Limits - \$5,000 limit on gold, silver, jewelry, furs, manuscripts and records.

- 3 (Though the limits can be raised by endorsement, property of this type should probably be covered by an Inland Marine policy.)

- 4 **Coverages**

- Robbery of an employee
- Damage to the premises caused by a robbery or safe burglary
- Safe Burglary

Insuring Agreement 5 - Outside the Premises

Covers - Money, securities and other property for theft, disappearance and destruction while outside the premises in the care or custody of a messenger or an armored motor vehicle company.

- 6 **Exclusions**

- Dishonest Acts of Employees
- Trickery
- Voluntary Relinquishment
- Unauthorized Transfer as the result of a threat to harm a person or property

Insuring Agreement 6 - Computer Fraud

- 1 **Covers** - Money, securities and other property which is transferred from the premises or banking premises to a person or location outside those premises.
- 2 **Perils Insured** - Only one peril - computer fraud.
- 3 **Exclusions** -Your acts or those of your employees.
- 4 **Policy Territory** -Worldwide

Insuring Agreement 7 – Funds Transfer Fraud

- 5 **Covers--** Covers only money and securities transferred to a person or place off premises due to the fraudulent instructions **transmitted by any means** - computer, fax, telephone, or any other.

Insuring Agreement 8 - Money Orders and Counterfeit Paper Currency

- 6 **Covers** - Money orders accepted which are not paid upon presentation to any post office, express company or bank as well as counterfeit currency or securities of any country acquired by the Insured during the regular course of business.

ENDORSEMENTS

Extortion - Commerical Entities

- 7 **Covers** - Property surrendered as the result of a threat to do bodily harm to an Insured, employee or relative who is or is allegedly being held captive.

Lessees of Safe Deposit Boxes

- 8 **Covers** - Securities in the care of the Insured on the property in a vault or in a safe deposit box due to loss by theft, disappearance, or destruction.

Securities Deposited with Others

- 9 **Covers** -Securities in the possession of the Insured but not in a safe or safe deposit box. Coverage is for loss due to theft disappearance or destruction

Guests' Property

- 10 **Covers** - Property of guests inside the premises of a hotel, motel, or nursing home. This endorsement covers an employee's theft of a guest's property.

Safe Depository

- 11 **Covers** – Provides named Insured for coverage due to theft or destruction of property in their care, custody or control in a safe, vault, or elsewhere on the premises. Also covers damage done to a safe while it is being burglarized.

Conclusion

1 The three parties to a Fidelity Bond are:

- **Principal** (employee)
- **Obligee** (employer)
- **Surety or Guarantor** (insurance company)

2 An Individual Bond covers one employee. A Schedule Bond can cover several employees by name or by position. The Blanket Bonds cover all employees - The Commercial Blanket on a per loss basis and the Blanket Position on a per employee basis.

Q and A

1. A messenger is held up by a gunman and insured property is taken. What is this?

A robbery.

2. A window is broken in a business closed for the night allowing insured property to be taken. What is this?

A burglary.

3. What is shoplifting or pickpocketing?

Not a burglary, not a robbery, but a **theft**.

4. An employee authorized to have custody of insured property **on premises** is what?

A custodian.

5. Off Premises?

A messenger.

6. Accompanying a messenger?

A guard.

7. Which Insuring Agreement covers?

A. Taking of insured property by an employee.

Insuring Agreement 1 - Employee Theft

B. Theft, disappearance or destruction of cash or securities on premises.

Insuring Agreement 3 - Inside the Premises - Theft of Money and Securities

C. A messenger is taking a bag of cash to the bank when a hurricane blows the bag out of his hands and cannot be located.

Insuring Agreement 5 - Outside of Premises

D. An employee alters his \$500 paycheck to make it \$5,000. No this is **not Forgery or Alteration**. An employee did it.

It's Insuring Agreement 1 - Employee Theft

EQUIPMENT BREAKDOWN (BOILER AND MACHINERY)

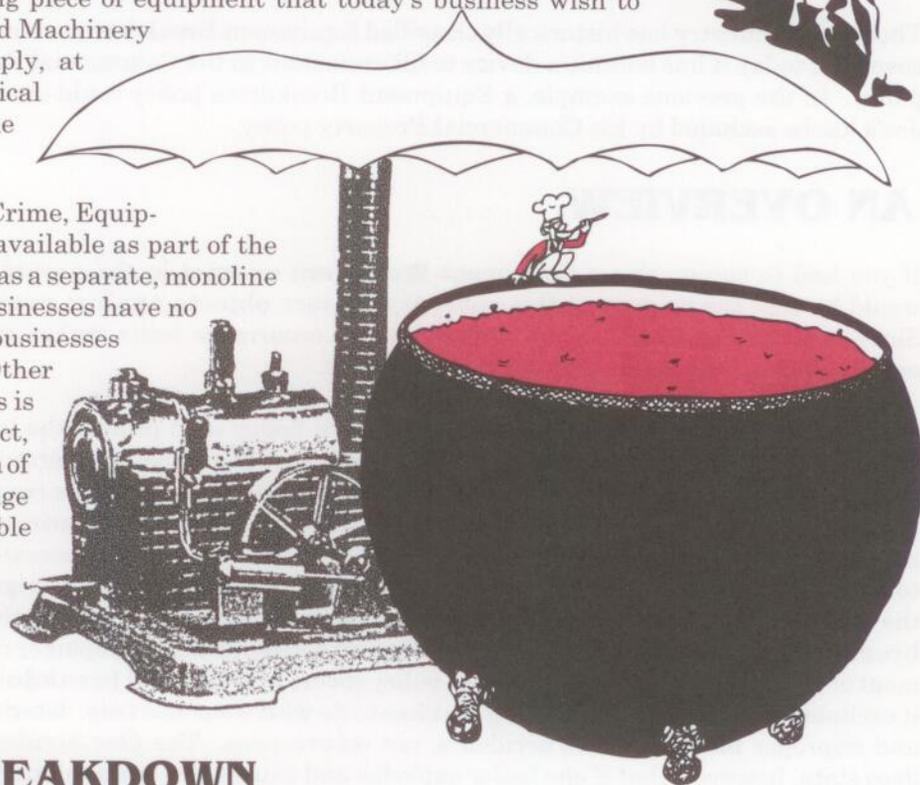
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SOURCE:
ISO Equipment
Breakdown 2008

- 1 For many years this coverage form was called Boiler and Machinery. However, changes in the way commercial enterprises do business and their specific coverage needs prompted a change in the name of this coverage to Equipment Breakdown. Equipment Breakdown still covers boilers, but as the name change implies, they are not necessarily the leading piece of equipment that today's business wish to cover. References to Boiler and Machinery are not wrong, they are simply, at this juncture, more of a historical reference than a reflection of the coverage's new name.



- 2 Like Property, Casualty, and Crime, Equipment Breakdown coverage is available as part of the Commercial Package policy or as a separate, monoline contract. Obviously, many businesses have no need for this coverage, but the businesses who do need it, really need it. Other policies exclude coverage – this is the one that provides it. In fact, the place to start our discussion of Equipment Breakdown coverage is with a review of the applicable exclusions we've seen already and to develop an example that clearly demonstrates the need for this policy.



The Need For EQUIPMENT BREAKDOWN

- 3 Let's suppose that Joe's restaurant is heated by a boiler. The "pop-off" valve malfunctions and the boiler explodes. Customers are injured, employees are injured, adjacent businesses are damaged, Joe's restaurant is severely damaged, and he has to shut down for 60 days to repair the damage. What's covered, and what's not covered by the policies we've discussed up to this point?

*...let's let off a
little steam...*

- 4 From a liability viewpoint, Joe is in pretty good shape; there is no boiler exclusion in the CGL. Therefore, the bodily injury to patrons is covered within the limits of the CGL. The damage to the adjacent buildings (property damage liability) is also covered under the CGL. Even the injury to Joe's own employees is covered because there is no boiler exclusion in a Workers Compensation contract.

- 1 Joe's main problem is his Commercial Property policy. As you will recall, there were three major coverage parts in that contract that defined **what** is covered:
- a. Building
 - b. Business Personal Property
 - c. Property of Others

2 Each of these coverage parts was tied to a Cause of Loss form (Basic, Broad, or Special) that defined **against what** perils coverage was provided. Even if Joe had selected the Special Cause of Loss form across the board, he would still have big problems.

3 In one way or another, all three Cause of Loss forms exclude "explosion of steam boilers owned, leased or operated under your control." Therefore, without Equipment Breakdown coverage, Joe would have no coverage for his building, his own business property or other people's property in his care, custody or control. Furthermore, since Joe's Business Income policy is also tied to one of the Cause of Loss forms, his 60 day loss of revenues would not be covered either.

4 Though our industry has historically classified Equipment Breakdown as a casualty coverage, today it has become a device to fill exclusions in the Commercial Property policy. In the previous example, a Equipment Breakdown policy could cover all of Joe's losses excluded by his Commercial Property policy.

AN OVERVIEW

5 If you had to summarize a Equipment Breakdown contract in three words, they would be that the purpose of this policy is to insure **objects against accidents**. Since most modern policies are written on an *occurrence basis* rather than an *accident basis*, let's begin with the word accident.

*objects...
...accidents*

6 The central objective of a Equipment Breakdown policy is to protect the businessowner who meticulously maintains his equipment. If a valve or bearing wears out, it's replaced. The policy is not intended for the guy who allows his equipment to deteriorate to the point that a loss occurs – this is an insurance contract, not a maintenance contract. Therefore, losses that happen *over time* (occurrences) are not covered; sudden and accidental events (accidents) are covered. In the language of the policy, the Equipment Breakdown contract covers the **sudden and accidental breakdown** of the equipment, causing a loss and necessitating the repair or replacement of the equipment. Essentially, the policy covers **mechanical breakdown** and it excludes anything and everything that has to do with wear and tear, deterioration and improper maintenance... accidents, not occurrences. The *One Accident Rule* does state, however, that if one boiler explodes and causes two more to explode, the event is viewed as **one accident**.

*broke...
not worn out.*

*... and hurt
"all at once"*

7 The word *object* obviously can mean Joe's boiler – if it breaks down, terrible losses can occur. But, Joe has other equipment that could cause losses (though probably smaller losses) if a mechanical breakdown occurs. While it is possible for Joe to list only his boiler as an object on the Equipment Breakdown Dec Sheet, it is more common to broaden the coverage to include other equipment subject to breakdown. If mechanical objects are included in the coverage, the Equipment Breakdown contract is again filling an exclusion found in Commercial Property which eliminates coverage for **mechanical breakdown**. If electrical objects are covered, the exclusion concerning **electrical arcing** is filled.

*Objects on
the dec sheet*

- 1 Currently, there are six categories of objects that can be covered under a Boiler and Machinery policy.
1. **Pressure and Refrigerator Objects** – including boilers, refrigeration units, air conditioning units, and vacuum units
 2. **Mechanical Objects** – including engines, pumps, compressors, and fans
 3. **Electrical Objects** – which includes a variety of electrical apparatus
 4. **Turbine Objects** – covers turbines
 5. **Comprehensive (Excluding Production Machines)** – covers everything above, but no production equipment
 6. **Comprehensive (Including Production Machines)** – as before, but including production equipment



6 types of coverage

THE EQUIPMENT BREAKDOWN POLICY

- 2 Now that we understand the purpose served by the Equipment Breakdown policy and further understand that the contract insures against the damage caused by an accident (mechanical breakdown) of an object, it is time to look at the contract itself.

SECTION A – COVERAGE

- 3 The Equipment Breakdown policy covers **direct damage** done to **covered property**. Covered property includes:

- *Property You Own* – Joe's building, inventory, business property, and the object (boiler or machine) itself
- *Property In Your Care, Custody, or Control and For Which You Are Legally Responsible* – any property for which Joe has a bailee's responsibility

- 4 This property is covered for loss due to an accident which is defined as **sudden and accidental breakdown** of the insured object. Any wear and tear type losses are excluded.

- 5 In addition to the basic coverage provided under Section A, there are four extensions of coverage.

1. **Expediting Expenses** – Up to \$25,000 (a limit that can be raised) to reimburse the Insured for reasonable extra expenses to make temporary repairs to expedite permanent replacement . . . items such as employee overtime or the extra cost of express shipments are good examples.
2. **Automatic Coverage for Newly Acquired Locations** – 90 day automatic coverage for newly acquired locations. The dollar limits and the deductible amount are the highest amounts shown in the declarations for the same type of object.
3. **Defense** – If a claim or suit is brought against the Insured for property in his care, custody or control, the company will defend the Insured.
4. **Supplementary Payments** – If the company defends the Insured in a suit, they will pay for the defense costs along with the other benefits typically covered by Supplementary Payments.

damage to . . .

. . . your stuff

. . . other's stuff

. . . accident

. . . back on line

new/90

*wow. . .
some liability
too*

SECTION B – EXCLUSIONS

- Ordinance or law
- Nuclear hazard
- War
- Flood
- Earth movement
- Fire
- Lightning
- Explosion (other than the type covered by this policy)
- Indirect losses

SECTION C – LIMITS

1 The primary limit of the policy is shown on the Dec Sheet and is written on a per accident basis. In addition, the policy has four interior limits that are part of and not in addition to the limits of insurance.

- Expediting expenses limitation – \$25,000
- Hazardous substance (clean up) limitation – \$25,000
- Ammonia contamination (clean up) limitation – \$25,000
- Water damage limitation – \$25,000

SECTION D – DEDUCTIBLE

2 The deductible is not stated in this portion of the contract but is found on the Dec Sheet. While most companies require a minimum deductible of \$250, higher amounts can be used.

3 This section says that if one or more objects is involved in one accident, only one deductible will apply. Furthermore, if one initial accident triggers subsequent accidents, the company will treat it all as one accident.

SECTION E – CONDITIONS

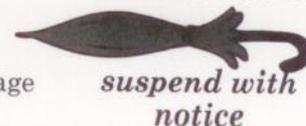
4 This section reads similarly to the Conditions section of the Commercial Property policy as it regards duties in the event of a loss, other insurance and legal action against the company. Only two conditions are so unique that they should be addressed.

1. **Valuation** – The standard Equipment Breakdown policy settles losses on a **Replacement Cost** basis. By endorsement, the contract can be downgraded to Actual Cash Value.
2. **Suspension – Prevention oriented**
 - Company may **inspect without notice**
 - If defects exist, company may **suspend coverage immediately with written notice**
 - Coverage stays suspended until the **defect is corrected**
 - Coverage is returned by **written endorsement**
 - A pro rata refund is made for any period during which coverage is suspended

"D-Duck"



*inspect
without notice*



*suspend with
notice*

SECTION F – DEFINITIONS

- 1 Only four words are included in this section: Accident, Object, One Accident, and Suit. All have been specifically defined earlier in this text or in this chapter.

INDIRECT LOSS ENDORSEMENTS

- 2 Though many endorsements exist for Equipment Breakdown policies, only one is important in our example of Joe's restaurant. Up to this point, we have not yet found coverage for one loss that Joe suffered when his restaurant boiler exploded – he was out of business for 60 days. In fact, throughout our discussion of the contract, the only time we've mentioned indirect losses is to say that they are excluded.

- 3 **Business Interruption - Actual Loss** - This endorsement provides business interruption coverage during the *period of restoration* for total or partial business interruption caused by an object specified in the declarations. It will cover actual losses and reasonable expenses to shorten the period of interruption up to the policy limits.

- 4 The deductible can be expressed as either dollars, time (days or hours), or as a multiple of daily value. *Daily value* is what would have been earned had there been no interruption. If we assume a daily value of \$10,000, and further assume that a multiple of 10 is shown on the Dec sheet, the deductible is \$100,000.

- 5 The Insured must furnish annual earning reports within three months of policy inception or renewal. If the estimated annual earnings is less than the actual earnings at the time of loss, a coinsurance penalty applies.

- 6 **Extra Expense** - As we saw in Commercial Property, the purpose of this endorsement is to pay expenses above the normal costs to continue operating a business following a covered loss. Generally, Extra Expense coverage is written with a dollar deductible.

- 7 **Combined Business Interruption and Extra Expense** - This endorsement simply combines the previous two for businesses that need Business Interruption to replace income **and** Extra Expense to offset extra expenses of continued operations following a covered loss.

- 8 **Consequential Damage** - This endorsement essentially covers *spoilage* caused by lack of power, light, heat, steam, or refrigeration following a covered loss. Property covered must be specified in the Declarations. This coverage is normally written with a coinsurance requirement and a dollar deductible.

- 9 With the Equipment Breakdown Business Interruption Endorsement, business income and extra expense losses are covered. Thus, the final hole in Joe's coverage picture is filled.

OTHER COMMERCIAL PACKAGE MODULES

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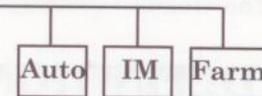


- 1 In Chapter Eight, we looked at an overview of the Commercial Package Policy. At that time, we pointed out that there were seven coverage modules. To this point we have examined four of those modules. In this chapter, we shall examine the three remaining building blocks of the Commercial Package Policy, i.e., **Commercial Auto**, **Inland Marine**, and **Farm**. We will also look briefly at a multi-line policy that is **not** part of the CPP, Aviation insurance.

COMMERCIAL AUTO

- 2 Source: ISO-Commercial Auto 2006
- 3 Our discussion of Commercial Automobile coverage will focus on the following coverage forms:
- **Business Auto**
 - **Truckers Coverage**
 - **Motor Carrier Coverage**
 - **Garage Policy**

Commercial Package



BUSINESS AUTO

- 4 Like most individuals, most businesses have many potential automobile risks. For many years, the Basic Auto policy was used to insure these exposures. The principal drawback was that the policy only provided coverage for scheduled automobiles. Hired cars and non-owned autos could be covered only by endorsement. The Comprehensive Auto policy evolved to serve the needs of large businesses with a fleet of autos. To qualify as a fleet, a business had to own **five** or more vehicles, but the policy covered all autos (owned, non-owned, and hired). The broad coverage was nice, but expensive.



- 5 When the Business Auto policy was introduced, it had none of the limitations of its predecessors. Some businesses might decide to insure only **specific vehicles**, and others may want to cover all of its autos. The Business Auto policy allows the Insured the flexibility to select coverage as narrow as the Basic Auto policy or as broad as the Comprehensive policy, or anything in between. It is available either as a monoline policy or as part of the Commercial Package Policy.

ELIGIBLE VEHICLES

- 1 The Business Auto policy insures vehicles which are owned, leased, hired, or borrowed by businesses. It may be used to insure private passenger autos and all types of trucks, trailers, and commercial vehicles designed for use on public roads.

DECLARATIONS

- 2 The Declarations section of the Business Auto policy determines which vehicles are covered and serves the same purposes as the Declarations section of the Personal Auto Policy. The only unique feature is that the business may choose which vehicles it wishes to insure by selecting one of the following nine symbols used to indicate covered autos:

*coverage by
declaration
...not definition*

- #1 Any auto
- #2 Owned autos only
- #3 Owned private passenger autos only
- #4 Owned autos other than private passenger autos
- #5 Owned autos subject to no-fault benefits
- #6 Owned autos subject to compulsory Uninsured Motorists law
- #7 Specifically described autos
- #8 Hired autos only
- #9 Non-owned autos only

- 3 An Insured may purchase the most narrow coverage (#7, specifically described autos), the broadest coverage (#1, any auto) or anything in between.

DEFINITIONS

- 4 **Auto** – A land motor vehicle, trailer, or semi-trailer designed for travel on public roads, but does not include mobile equipment. For liability insurance only, auto does include mobile equipment but only while it is being carried or towed by a covered auto.

on road

- 5 **Mobile Equipment** – Any of the following land vehicles, including:

- Most construction equipment.
- Off-road vehicles.
- Vehicles maintained solely to transport permanently attached specialized equipment.
- Autos maintained solely for use on the Insured's premises and the access roads that adjoin the premises.

off road

COVERED AUTOS

Covered Autos can be identified in the Declarations. A coverage symbol is entered alongside each coverage, and these symbols designate the only vehicles that are subject to that coverage.

POLICY PERIOD AND TERRITORY

- 1 The Business Auto policy covers losses occurring during the policy period. The territory is the United States, its possessions, Puerto Rico, or Canada, or while a covered auto is being transported between any of these places.

LIABILITY: AGREEMENTS AND LIMITS

- 2 The Business Auto policy liability insuring agreement, provisions for the application of limits, and supplementary payments follow the basic pattern of liability coverages. In this policy, the risk arises from the "ownership, maintenance, or use of an automobile."

WHO IS INSURED?

- The Named Insured for any covered auto.
- Anyone **with the permission** of the Named Insured to use a covered auto. *permission*

LIABILITY CHOICES

- 3 Several liability-related coverages are selected by the policyowner on the Dec Sheet. They include:

- **Medical Payments** - This coverage provides approximately the same benefits as the Medical Payments coverage of a Personal Auto policy. It excludes Workers Compensation losses.
- **Uninsured Motorists** - The Uninsured Motorists insurance of the Business Auto policy covers both uninsured and underinsured motorists.
- **Employers Non-Ownership Liability** - This provides coverage for employers whose employees use their own cars on company business.

*your people
use their cars
on your business*

LIABILITY EXCLUSIONS

- 4 The Business Auto policy does not provide liability insurance for:

- pollution
- contractual liability risks
- Workers Compensation claims
- damage to property

*looks more
like CGL than
Auto*

PHYSICAL DAMAGE

1 The Business Auto policy can provide Physical Damage coverage under any of three agreements: **Collision, Comprehensive, or Specified Perils coverage**. The Collision and Comprehensive coverages are similar to the Personal Auto policy. Specified Perils coverage provides only for non-collision losses caused by fire, explosion, theft, windstorm, hail, earthquake, flood, mischief or vandalism, and the sinking, burning, collision, or derailment of any conveyance transporting the covered auto. It can be viewed as comprehensive coverage for the cheapskate.

*Specified perils.
.. poor man's
Comp...*

2 **TOWING AND LABOR** – Provides a small amount of money to get a stranded vehicle out of harm's way. Simple logic, really. If we pay for the tow truck, we won't have to buy the Insured new tires, battery, radio, etc.

3 **LIMIT OF LIABILITY** – ACV or the amount to repair or replace.

4 **CONDITIONS** –The Business Auto policy conditions are nearly identical to those of the Personal Auto policy.



BUSINESS AUTO POLICY ENDORSEMENTS

5 **Drive Other Car Coverage** - This option provides coverage for employees driving another car for personal use. Suppose Joe owns his own business and has a company car provided for his regular use, both business and personal. Because of this, he has no car of his own and no Personal Auto policy. If he borrows his neighbor's car, the Drive Other Car option would provide coverage. This endorsement can extend both liability and physical damage coverage.

6 **Additional Insured - Lessor** - This endorsement simply adds the car owner who is leasing the auto to the business as an additional Insured on the policy. The lessor has both liability and physical damage coverage.

7 **Individual Named Insured** - This allows a family-owned business to specifically include family members as named Insureds for company vehicles, even if the family member does not normally work within the business. If the policy provides both liability and physical damage coverage then those coverages extend to the family members as well.

8 **Mobile Equipment** - This endorsement transforms mobile equipment into an auto and provides auto liability and physical damage coverage for designated vehicles.

TRUCKER'S COVERAGE ‡

9 There are several variations of the Business Auto policy that are tweaked and tuned for specific needs. One such is the **Trucker's policy**. Section I of the policy allows the choice of any of 10 coverage symbols to designate what vehicles are covered. Section II provides liability coverage identical to the Business Auto policy. And, Section IV does the same for Physical Damage coverage. The only unique feature is **Section III - Trailer Interchange coverage**. Because Insureds in the trucking business often exchange trailers, this section provides the same coverage for a borrowed trailer as for an owned trailer - liability and physical damage.

MOTOR CARRIER COVERAGE ‡

- 1 This is another variation of the Business Auto policy and is almost identical to the Truckers form. The difference is that a motor carrier can transport **property or passengers** - so this coverage would pick up taxis, jitneys, vans, busses, and other vehicles transporting people and/or cargo.

LIABILITY INSURANCE REQUIREMENTS ‡

- 2 The Federal Government, through the **Motor Carrier Act of 1980**, has implemented minimum liability insurance requirements for commercial vehicles that carry cargo. Therefore, this law could impact Insured's under a Business Auto, Trucker's, or Motor Carrier policy. These standards apply to both private and *for hire* vehicles. The requirements vary dependent upon the type of cargo being carried.

*Third Party
for "Haulers"*

- 3 Minimum Liability Limits

General Cargo	\$ 750,000.
Hazardous Materials	\$5,000,000.
Oil	\$1,000,000.

Public Liability
(MCS-90)

- 4 Policies must be endorsed to show compliance with the Act. Stacking of policies to reach the minimum limits is permitted; however each endorsement used must show whether the coverage provided is **primary or excess**.
- 5 A **Certificate of Insurance** must be filed with the Interstate Commerce Commission. Should coverage be cancelled, the ICC must be given a **30 day** notice.

GARAGE POLICY

- 6 The Garage policy is designed to cover people in the auto business: dealers, repair shops, service stations, parking garages, etc. The Business Auto policy does not provide adequate coverage for these businesses because it excludes coverage for property in the Insured's care, custody or control, and it does not cover general liability exposures. The Garage policy combines Automobile liability with General Liability coverages to construct **two possible coverage parts**.

GARAGE LIABILITY COVERAGE

- 7 This coverage can provide full liability coverage for automobile businesses except for damage to customers' cars. It provides:

- Premises and Operations Liability
- Products and Completed Operations Liability
- Automobile Liability

*but not
customers'
cars...*

GARAGEKEEPERS LIABILITY COVERAGE

- 8 This policy **only covers** losses to the autos of customers. It is bailee coverage and, when coupled with Garage Liability, can provide broad liability coverage for automobile businesses which **do handle** their customers' cars.

OCEAN AND INLAND MARINE

1976 NATIONWIDE MARINE DEFINITION

- 1 The purpose of this definition is to restrict the areas in which marine underwriters can write coverages. Today marine underwriters are limited to six categories:
 - Imports
 - Exports
 - Domestic Shipments
 - Bridges, Tunnels, Docks, and other Instruments of Transportation and Communication
 - Personal Property Floaters
 - Commercial Property Floaters

- 2 **IMPORTS** – Property being shipped from another country for delivery in the United States. When the import reaches its destination, it ceases to be a proper subject for marine insurance.

- 3 **EXPORTS** – Property being shipped from the U.S. for delivery in another country. An export becomes a proper subject for marine insurance once it is designated as an export or is being prepared for export.

- 4 **DOMESTIC SHIPMENTS** – Property being shipped from one location to another within the U.S. Trip Transit, Motor Truck Cargo and Parcel Post are typical policies. After a limited period of time specified in the contract, the domestic shipment is no longer considered “in course of transportation” and therefore is no longer a proper subject for marine insurance.

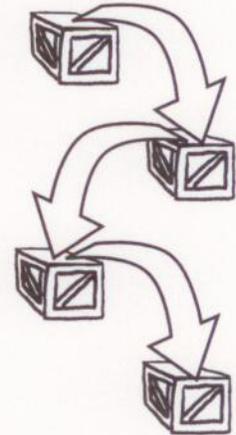
- 5 **BRIDGES, TUNNELS, DOCKS, and other INSTRUMENTS OF TRANSPORTATION and COMMUNICATION** – Includes piers, marine railways, pipelines and pumping equipment, power transmission lines, telephone lines, radio and TV broadcasts (the theory being that they “transport” words and messages), and outdoor cranes/loading bridges used to load and unload ships. These are classified as marine insurance in recognition of a long standing practice in the business. Such coverages had been written by marine underwriters for years, mainly since fire underwriters did not want to give broad protection on this type of property.

- 6 Excluded are buildings used in connection with bridges and other instruments of transportation or communication. **Neither ships nor boats are mentioned specifically in the definition since tradition made it obvious that they are eligible for marine coverage.**

- 7 **PERSONAL PROPERTY FLOATER RISKS** – Mobile property that is excluded, limited or inadequately covered under a Homeowners or Dwelling policy can be covered with a Personal Property Inland Marine Floater.

- 8 **COMMERCIAL PROPERTY FLOATER RISKS** – *All Risk* policies covering mobile property pertaining to a business, profession, or occupation.

Notes

*coming...**...going...**...moving**things that help
movement*

TWO BRANCHES OF MARINE INSURANCE: OCEAN AND INLAND

1 At one time, it was easy to classify imports and exports as Ocean Marine and the remaining four categories as Inland Marine. But as transportation has become more complex, such classifications have lost their clarity. For example, Toyota automobiles shipped from Japan to the port of Cincinnati (warehouse to warehouse) will travel across both ocean and land and, therefore, must be insured under an Ocean Marine policy. On the other hand, an art collection you take to Europe for exhibit may travel by air over the ocean and can be covered by an Inland Marine Floater policy. How about ships and/or cargo on inland waterways, such as the Great Lakes or the Mississippi River? An Ocean Marine policy must be used because these are waterborne risks.

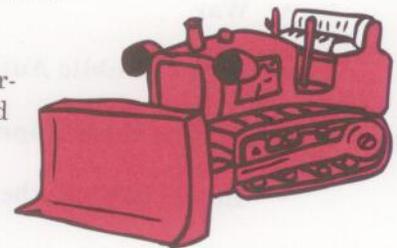
2 Today the distinction is made in the following manner: if the cargo will be placed on a ship (and thus exposed to the water perils of sinking, etc.), the Ocean Marine policy form must be used. If the cargo is transported over land or in the air (thus not being exposed to the water perils), the Inland Marine coverage form can be used. As you can see, the title *Inland Marine* is somewhat of a misnomer. **Wet** transportation and **dry** transportation would be a more accurate description of the two branches of marine insurance.

*one more time -
Inland - dry
Ocean - wet*

INLAND MARINE - "DRY"

3 **Commercial Inland Marine Property Floaters** - These policies are written on an all risk, direct loss basis. The following are a representative sampling of the ISO Commercial Inland Marine contracts. These are available as part of the Commercial Package or as separate monoline coverages.

- **Accounts Receivable** - This coverage is in reality a consequential loss coverage. The risk that is being covered is the Insured's inability to collect amounts due because of the loss of records. Acts involving employee dishonesty are excluded. There are significant rating credits for implementation of loss control measures, such as duplicate copies and the use of safes and vaults.
- **Bailees** - This coverage is for the property of others being held by the Insured for business reasons. NOTE: The CGL will not cover such losses because of the *care, custody and control* exclusion.
- **Commercial Articles Floaters** - This coverage is designed to provide coverage for items used commercially. Eligible type of property include cameras and musical instruments.
- **Contractors Equipment Floaters** - Our friend the Bulldozer... on, or off premises.
- **Valuable Papers and Records** - Coverage is available on either a scheduled or blanket basis. Eligible items include: documents, manuscripts, books, deeds, drawings, films, maps, and mortgages. **The coverage does not include losses to electronically stored data.**



*our friend the
bulldozer*

- **Electronic Data Processing** - Fills up the hole in the Valuable Papers and Records coverage.
- **Equipment Dealers** - Coverage for the inventory of farm implement and construction equipment dealers. **The policy will not cover automobiles.** Also covers the property in the care and custody of the Insured.
- **Installation Floater** - The Insured is a contractor installing an air conditioning unit in someone's building. The Insured wants coverage for damage to the unit during the installation process. Not Property....no insurable interest. Not Liability...the unit is in the Insured's care and custody...The Installation Floater...*"dis is it!"*
- **Jewelers Block** - Coverage for the Insured's inventory. Only jewelers with average inventories of less than **\$250,000** are eligible. Ineligible risks include wholesalers, manufacturers, industrial diamond dealers, antique dealers and watch repair shops. Off premises risks are classified by the mode of transportation, such as registered mail, armored car, delivery services, etc.
- **Signs** - Coverage for neon, fluorescent, automatic, mechanical and electric signs. **Billboards and ordinary signs are ineligible.**

Commercial Inland Marine Transportation Coverages †

- 1 **Common Carriers and Liability** - As a general rule anyone who is in the business of hauling other people's goods for a fee is a **common carrier**. While common carriers must accept all customers, they do not have to accept all shipments. For example, cargo such as petroleum products, perishables, and hazardous materials might not be a good fit for the equipment of a specific carrier, and that carrier could refuse services. *In the business* should not be interpreted to mean in the sole business. An orchard owner who carries his neighbor's produce to market is a common carrier if he is compensated.
- 2 **Common carriers are bailees**. They are liable for the safe delivery of their cargoes in all but a very few situations. The only exceptions are:
 - **Acts of God**...earthquake, storm, locusts, etc.
 - **War**
 - **Acts of Public Authority**...government seizes the cargo
 - **Acts of the Shipper**...poor packing job
 - **Inherent Vice**...the bacon was improperly cured causing it to mold in transit.
- 3 While the liability of a carrier itself cannot be contracted away, carriers can limit the maximum dollar amount of their responsibility. These agreements must be in writing and appear on the **bill of lading**. The bill of lading is the contract between the shipper and the carrier. It lists the good being shipped, acknowledges their receipt, and promises to deliver the goods to the person named.

- 1 **Motor Truck Cargo Forms** - While there are no official standard policy forms, competition has caused some standards to evolve. There are three primary types of Motor Truck Cargo insurance:
- **Truckers** - This coverage is for the carriers. It provides coverage for any damage to the cargo for which they are responsible.
 - **Shippers** - This is also coverage for the items being shipped, the difference being that the Insured is now the owner of the goods and not the carrier.
 - **Owners** - This coverage is for those Insureds who ship cargo on their own trucks
- 2 **Perils** - Again while there are no standard forms, there are several perils that are generally covered:
- Fire
 - Lightning
 - Explosion
 - Collision
 - Upset
 - Sinking (while the cargo is in transit on a ferryboat)

3 **Typical Exclusions:**

- Wetness or dampness
- Delay
- Neglect of the Insured to use reasonable means to protect
- Strikes
- Dishonest acts by the Insured's Employees

- 4 **Transit Coverage Forms-The Policy Period** - Transit Coverage Forms are written in two ways. Insureds who make regular shipments would find it most efficient to purchase their coverage on an **annual** basis. Insureds who rarely make shipments can purchase coverage for specific shipments through a **Trip Transit Policy**.

OCEAN MARINE - "WET" ‡

- 5 While not a part of the Commercial Package Policy, it is appropriate to discuss Ocean Marine coverage at this point due to its similarity to the Inland Marine coverages that can be a part of the Commercial Package.

Types of Ocean Marine Coverages

- 6 **Hull Coverage** - This insurance protects the shipowner for damage to the vessel.
- 7 **Cargo Coverage** - This coverage protects the owner of the cargo for losses to the items being shipped.
- 8 **Freight Coverage** - This coverage also protects the owner of the cargo; however, it does not cover the items being shipped, but rather indemnifies the cargo owner who prepays shipping charges. The policy pays when a prepaid voyage is not completed.

- 9 **NOTE: Cargo and Freight coverages are not the same thing.** The owner of the items being shipped may need both Cargo and Freight Coverages to be fully protected.

*includes parts
of the ship –
like "davits"*

1 **Perils** - While Ocean Marine underwriters can tailor coverage to fit a variety of situations, the perils that are generally covered include:

- **Perils of the Sea**...sinking, running aground, collision, storms, in other words all of those things that make sailors so dern salty.
- **Fire**
- **Assailing Thieves**...similar to robbery on dry land, i.e., violence is required.
- **Jettison**...purposefully tossing cargo overboard to preserve the vessel.
- **Barratry of a Master**...in short, embezzlement by the captain.
- **Explosion**
- **Latent Defects**...in the hull, engines, navigational equipment, etc. Sometimes referred to as the *Inchmaree Clause* after a court case involving a ship of that name.
- **All Other Perils**...this **does not** make Ocean Marine Policies all risk. The *Other Perils* must be similar in nature to those already named.

*...even war
...but not mutiny*

2 **Implied Warranties** - Ocean Marine policies come with several implied warranties. The most important of these is the implied warranty of Seaworthiness of the Vessel. This simply requires that the vessel be properly constructed, maintained, manned, and provisioned for the voyage. This means different requirements for different situations, delivering sausages down the Ohio river by barge has very different requirements than shipping liquefied natural gas around Cape Horn.

3 **Averages** - When dangerous conditions arise at sea, it is often necessary to sacrifice part of the cargo or the vessel itself. It might be necessary in a storm to jettison part of the cargo to keep the ship from sinking, or if the ship were on fire, the captain may have to order part of a cargo hold flooded in order to save the ship.

4 In either of these, the losses would be born under what is referred to as the **General Average**. The effect of the general average is that the costs of the lost property would not be born only by the owners of the property and their insurers, but rather apportioned among all who had an interest in the voyage...the other cargo owners and the shipowner. In order to invoke the General Average three conditions must be met:

- The action must be necessary to save the ship
- The action be reasonable and voluntary
- It must work...the ship must be saved

5 Other marine losses are settled under the rule known as **Particular Average**. In other words, each party is responsible for their own losses.

FARM ‡

Source: ISO Farm-2003

- 1 The final module available under the Commercial Package concept is Farm. The Farm module contains both two party (property) and third party (casualty) coverages. The definition of farming includes the growing of almost any kind of crops, e.g., vegetables, fruits, nuts, sod; the raising of almost any kind of animal, e.g., livestock, poultry, bees, and aquaculture. The farm, however, must be operated as a business. Homeowners who have some excess acreage upon which they raise food for their own consumption would not qualify for coverage under this module.

Farmer Joe



Farm Property Coverages

- Coverage A- Dwellings
- Coverage B- Other Private Structures
- Coverage C- Household Personal Property
- Coverage D- Loss of Use
- Coverage E- Scheduled Farm Personal Property
- Coverage F- Unscheduled Farm Personal Property
- Coverage G- Other Farm Structures

- 2 You will note that even though the Farm module is considered to a Commercial Lines policy, because of the peculiar nature of the farming business, coverage is included for **both the business and the non-business related property** of the Insured. Coverages A, B, C, and D essentially replicate the Property coverages of Homeowners that were discussed at length earlier in this text. The cause of loss forms available are **Basic, Broad, and Special**, which means that the Homeowners type coverages duplicate the Property coverages of an HO-1 (Basic), an HO-2 (Broad), or an HO-3 (Special) policy.

- 3 **Coverage E- Scheduled Farm Personal Property** is an ACV coverage for categories of farm property for the limits listed on the Dec sheet. These include harvested crops, poultry, and miscellaneous equipment. **Coverage F- Unscheduled Farm Personal Property** is an ACV coverage for all other farm business equipment that does not appear under Coverage E. **Coverage G - Other Farm Structures** provides coverage for buildings and structures like barns, silos, fences and radio towers.

Other Farm Property Coverages

- 4 Some items can be insured under a more specialized form than the Farm Property coverage parts (Coverage E and F). Two of these are the Mobile Agricultural Machinery and Equipment coverage form and the Livestock coverage form.

- 5 **Mobile Agricultural Machinery and Equipment** - This coverage is designed to protect the farmers *mobile equipment*. This coverage is for farmers only, not dealers, repair shops or those in the business of renting equipment.

- 6 The coverage is written on a direct loss and all risk basis. The exclusions look like a cross between those found in the Commercial Property Special Form and those found in the Comprehensive Coverage in an automobile policy.

1 **Livestock Coverage** - This coverage is for animals not covered under Coverages E and F of the Farm Policy. Animals that would be covered include, among others:

- horses used exclusively for racing and show
- cattle and sheep on ranges
- livestock of others

2 Animals that are **not** covered include:

- those in transit by common or contract carrier
- those at a stockyard, sales barn or sales yard
- those at a slaughter or packing house

3 Coverage is written on a named peril basis; the cause of loss form is the Basic, with the addition of Collision. Additional coverages that may be purchased include: accidental shooting, drowning, electrocution, attack by dogs or wild animals and loading and unloading accidents.

Farm Casualty Coverages

Coverage H - Bodily Injury and Property Damage
Coverage I - Personal Injury and Advertising Injury
Coverage J - Medical Payments

4 NOTE: Even a quick glance will yield the parallels between H, I, and J of the Farm Policy and A, B, and C of the CGL.

5 As with the Property Coverages, the Casualty coverages of the Farm policy are a unique blend of personal and Commercial lines. The Exclusions, for instance, take their inspiration from not only the CGL but also from those found in Section II, of the Homeowners Policy. The definitions and conditions are not unlike those that we have already examined, albeit with a *down home* twist.

*No separate
limit for
products*

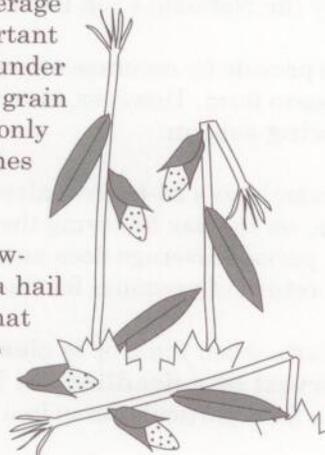
CROP INSURANCE ‡

1 Crop Insurance is a specialized area of insurance important to those who have an insurable interest in growing crops. Though not part of the Farm coverage available through the Commercial Package, it obviously is an important coverage for farmers. Over 200 different U.S. crops can be covered under these policies - large grain crops like corn, maize and soybean; small grain (cereal grain); cotton; tobacco; fruits and vegetables. Typically, only the marketable portion of the crop is insured. The trees, vines, bushes and blossoms that produce the useful part are excluded.

2 Crop policies are normally written to cover the **reduced yield** following a loss, not the percentage of plants destroyed. For example, a hail storm could destroy 50% of the corn stalks in a farmed field. But, that *thinning* process might allow the surviving stalks to overproduce to a level that the ultimate yield is 80% of normal.

3 The original crop peril was hail, and for many years the term **crop hail insurance** was used to describe the crop insurance contracts available. Even then, crop policies typically covered fire, lightning, and wind. And, in the citrus belt, they tended to cover frost and freezing.

4 Today most crop insurance is **multi-peril**. These contracts cover the crop hail perils as well as hurricane, tornado, flood, earthquake, volcano, drought, excessive moisture, insect infestation, plant disease, wildlife damage and failure of irrigation equipment.



Dual Marketing Systems

5 Today, farmers can purchase crop coverage through the **Federal Crop Insurance Corporation (FCIC)**, which is an agency of the federal government, or through private companies utilizing the **Multi-Peril Crop Insurance (MPCI)** program. The policies are nearly identical and the rates are comparable. The federal government subsidizes and reinsures the MPCI program to make it a more attractive proposition to private carriers. The *expense element* of the MPCI premium is subsidized 100% by the federal government, and *risk element* can be subsidized up to 30%. The current reinsurance program limits the profit or loss of a private carrier to a range

6 between an 11 1/3% loss to an 11 1/3% gain.

Since 1980, more and more farmers are buying multi-peril crop coverage, and most buy it through private companies. This is due in large part to three factors:

- The aforementioned subsidies and reinsurance provided by the feds.
- The requirement that farm loans be protected by crop insurance.
- The reduction of funds available for agricultural disaster relief.

7 Coverage Levels

Under the FCIC or the MPIC program, coverage can be obtained to the levels of 50%, 65%, or 75% of the reduced yield.

Policy Provisions

- 1 While there is no standard Multi-Peril Crop policy, most insurers follow the forms developed by the National Crop Insurance Services (NCIS) organization.

These forms provide for coverage on an **annual policy** form, a **three season** form, or a **five season** form. However, even with an annual policy, **coverage is limited to the growing season.**

- 3 The NCIS forms have a **24-hour waiting period**, which states that coverage begins at 12:01 a.m. on the day following the date of application. If a loss occurs during the waiting period, coverage does not take effect and the Insured has 72 hours to request the return of premium for the affected acreage.

- 4 Coverage starts when the crop is **clearly visible above the ground**, and terminates at **harvest or a deadline set in the policy** that corresponds to the latest harvest date for a particular crop in a particular geographic area.

Coverage Amount

- 5 Policy limits are usually stated as a dollar limit per acre. For instance, if the crop is valued at \$200 an acre, the insurance amount might be \$100 per acre (or 50%). If the loss is \$80 an acre, the policy would pay \$40 an acre (50% of \$80).

- 6 In some regions, crops can be insured under a **farm unit plan** which applies an amount of insurance to the entire farm instead of the percentage payment per acre arrangements, which are the most common.

Deductibles

- 7 Most crop policies are written with some variation of the **excess over deductible**. In other words, the coverage applies as excess insurance and pays nothing until the loss exceeds a particular threshold of 5%, 10%, or 20%. Once the threshold is reached, the insurer pays its percentage on the **amount of the loss above the deductible** percentage.
- 8 In some states, coverage for **harvested crops** is available for the perils of **fire and transit**. Usually these coverages are not subject to a deductible.

AVIATION INSURANCE

- Though not part of the Commercial Package policy, aviation policies are both property and casualty and, therefore, *package policies*. And, while not all aviation activities are commercially oriented, many are, and those that are totally private still interface with a commercial exposure - the airport at which the plane is kept.
- 1
 - 2 While there are no standard policies in aviation, there are major similarities in the policies available.
 - 3 Most aviation policies include:
 - Bodily Injury Liability
 - Property Damage Liability
 - Med Pay
 - Hull Coverage (Physical Damage)
 - 4 These policies are comparable to a personal Auto policy in terms of coverages available, conditions, and exclusions.
 - 5 The Bodily Injury Liability section is generally divided into two coverages- one for passengers and another for anyone else. Obviously, most aircraft operators need both.
 - 6 **Commercial Aviation** - For the operator of an airport, many companies offer an **airport liability** policy that is somewhat like a CGL for an airport. For the customer's planes, the airport needs **Hangarkeepers**, which is similar to Garagekeepers in that it covers the bailee's liability of the airport for planes belonging to their customers.

Conclusion

- 1 **Business Auto** can provide coverage for automobiles owned, leased, hired, or even employee's vehicles they use on the job. The **policy declarations section** will spell out which automobiles are covered. **Business Auto** can provide **Physical Damage coverage** for damage done to the cars as well as **Liability coverage**. A company could choose to add **Employer's Non-Ownership Liability** to protect the company against lawsuits if an employee injures someone or damages someone's property while driving their own personal vehicle on company business. **Garage policies** are designed for someone in the automobile business. **Garage Liability** affords a person in the automobile business **liability** protection including, **Premises and Operations, Products and Completed Operations** and **Automobile Liability**. It does not, however, pay for damage done to customer's cars. To cover customer's cars a **Garagekeeper's Liability policy** is required.

- 2 Things on the move or associated with transportation are covered by either an **Ocean Marine (wet) or Inland Marine (dry) policy**. **Marine policies** normally provide property-type coverage. Imports, exports, bridges, tunnels, pipelines, communication cables and mobile property can be covered by a **Marine policy**. Ships and barges are also eligible for coverage but not specifically mentioned in the **Marine definition**. **Marine policies** provide **Bailee's Liability coverage** for property in your care, custody or control even if not located at your business.

- 3 Like the other coverages available under the Commercial Package, the **Farm** module can be purchased as part of the package or as a monoline policy. The Farm module is designed for a farm that is being operated as a business. It utilizes Coverages A – D of the Homeowners Property coverage and then adds coverage for Scheduled and Unscheduled Farm personal property as well as coverage for Other Farm Structures. Farm Casualty coverages include Coverage H (BI and PD), Coverage I (Personal and advertising Injury), and Coverage J (Med Pay).



BUSINESSOWNERS POLICY

14

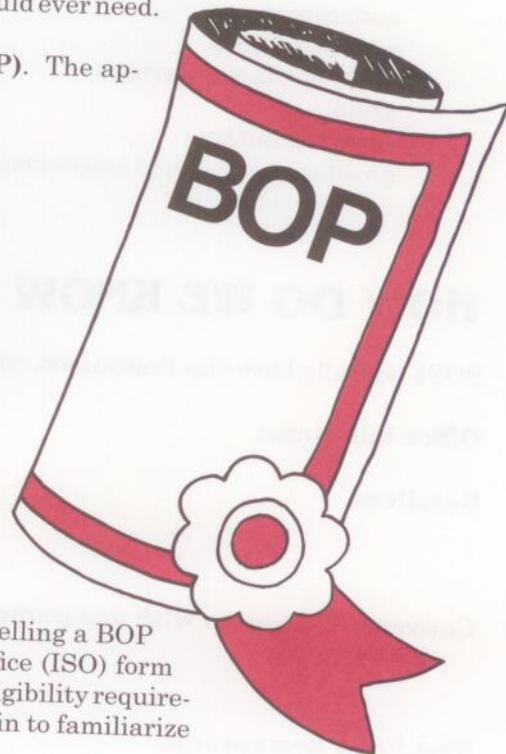
SOURCE:
ISO-BOP-2006



1 The Commercial Package Policy which we have studied can be tailored to serve the needs of almost any business – from the neighborhood convenience store to General Motors. Probably the most important element of the Commercial Package Policy is its flexibility. However, flexibility requires that choices be made and decisions be reached. As we noted early on, the Commercial Package Policy does not exist until you and your client build it.

2 There is a large group of small to medium-sized businesses in this country that could literally be overwhelmed by the number of decisions to be reached in constructing a Commercial Package Policy. Imagine explaining aggregate and occurrence liability limits to Pop's Shoe Repair. Think how Pop would respond if you asked him if he needed Business Income or Extra Expense coverages – and at what levels and for how long. A business like Pop's might find that the CPP is just a little overkill. What Pop really wants is the business equivalent of a Homeowners Policy – simple to buy, simple to understand and includes just about everything he could ever need.

3 Well, that policy exists. It is the **Businessowners Policy (BOP)**. The application is short and simple, rating (pricing) is easy for the Agent to do, and there are very few options to consider. In an oversimplified way, the BOP is nothing but a **prepackaged** version of a Commercial Package Policy comprised of **Commercial Property** and a **CGL**. It has far less flexibility, but almost all of the necessary coverages are automatically built into the contract. The BOP is almost like a *Homeowners* for small low risk business.



4 **Good news!** You have already studied every coverage it contains or can be endorsed to contain. **Bad news!** Nearly every company selling a BOP has made some minor modifications to the Insurance Services Office (ISO) form discussed in this text. Therefore, you *will* find minor differences in eligibility requirements and available coverages after you complete this text and begin to familiarize yourself with your own company's product.

ELIGIBILITY

- 1 Generally speaking, the BOP is designed for the **small** to medium sized **low risk** businesses. The Insureds have coverage needs that are quite similar and do not include large or complex exposures that need uniquely designed coverage programs.

HOW DO WE KNOW LOW RISK?

- 2 Carriers limit the types of businesses eligible for BOPs. Businesses typically eligible for a BOP include:

apartments and condominiums
 office buildings
 stores
 service businesses
 wholesalers
 contractors
 convenience stores (even with gas pumps)
 fast food restaurants
 laundries and dry cleaners
 auto parts stores

- 3 Businesses **not** eligible include

automobile, mobile home, and motorcycle dealers
bars
banks
manufacturing
 auto repair
 service stations
 parking lots and garages
 grills
 large restaurants
 arcades and places of amusement

NO CARS
NO BARS
NO BANKS
NO
MANUFACTURING

HOW DO WE KNOW SMALL?

BOPs typically have size limitations, such as

Office buildings:

Up to 100,000 square feet, six stories or less.

Retailers:

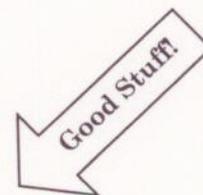
Up to \$3 million in volume and up to 25,000 square feet. An additional 25,000 square feet is allowed for storage.

Convenience Stores with gas pumps:

Less than seventy-five percent of the total revenues can come from gasoline sales.

Fast Food Restaurants:

Up to 7,500 square feet, seating capacity on more than 75, no bar service.



Wholesalers: 25% or less of gross sales is retail
25% or less of square footage open to the public

Dry Cleaners and Motels Less than 3 stories tall

POLICY DESIGN

- 1 The BOP design is similar to the Commercial Package Policy in the sense that there are common policy parts and that the coverages are almost all the same.
- 2 The Businessowners Policy is comprised of:
 - a Declarations Sheet
 - a Common Policy Conditions Sheet
 - a property coverage form
 - a liability coverage form
 - any endorsements (limited number available)

- 3 The big difference is that **the Businessowners Policy must be sold as a package — property and casualty**. It **cannot** be disassembled and sold as a monoline policy. It is a packaged policy, and all of the parts **must** be there. This idea of indivisibility holds true in the individual coverage forms as well. For instance, you generally may not exclude specific liability coverages as you can with the CGL. **On the property side, both the building and the contents must be covered if the Insured owns both.**



- 4 The Declarations Sheet is very similar to the Declarations under the Commercial Package Policy. There are a number of optional coverages that are available simply by marking the appropriate spots on the Declarations Sheet.
- 5 The Common Policy Conditions statement is also very similar to the equivalent version in the Commercial Package Policy. The property coverages available are also parallel to the CPP. The major difference is that many of the coverages are automatic rather than optional. The liability side of the BOP is also almost identical to the Commercial General Liability Policy.

PROPERTY FORMS

- 6 The Insured's Building is defined in much the same way as it was in the Commercial Property policy. Business Personal Property includes property owned by the Insured which is used in the business, property of others in the care, custody or control of the Insured, improvement and betterments made by an Insured tenant and leased personal property for which the Insured has a contractual responsibility.
- 7 The policy contains an automatic increase in coverage limits, or inflation guard, for the building. There is also an automatic 25% increase in the amount of Business Personal Property coverage to offset any seasonal variations in stock. This would allow a 25% increase in the limit of Business Personal Property for peak seasons, such as Christmas. This mechanism automatically handles a problem that requires a Reporting Form if a business were insured under the more cumbersome Commercial Property policy.

1 The BOP covers property for losses due to Special Perils. By endorsement, the Insured can purchase Standard (Basic) Perils if desired.

2 The Standard form is a Named Peril policy that almost exactly parallels the Basic form under the Commercial Property Policy. It covers the same original eleven perils plus one new peril called **Transportation**. The peril of Transportation protects your property in transit from losses due to such things as collision and upset. The Special form is an All Risk version almost identical to the Special form in the Commercial Property Policy. With both forms **the standard deductible is \$500** but does not apply to fire department service charges, business income or extra expense losses.

3 While the BOP is written with **no coinsurance requirement**, it does give the Insured an incentive to insure to value. If the property is insured to at least 80% of its value, losses are settled on a **replacement cost basis** (with certain exceptions like used or secondhand merchandise, household contents, manuscripts and fine arts). If this level is not maintained, **losses are paid ACV**.

4 Like the Commercial Property policy, the BOP has a lengthy list of **Additional Coverages** which are **automatic**.

- Debris removal
- Preservation of property
- Fire Department service charge
- Collapse
- Water Damage
- Pollutant Clean up
- Acts of Civil Authority
- Money Orders and Counterfeit money
- Forgery and Alteration
- Increased Cost of Construction (ordinance or law)
- Glass Expense (for temporary repairs)
- Fire Extinguisher System Recharge
- Electronic Data
- Interruption of Computer Operations
- Limited Coverage for fungi, wet or dry rot, bacteria
- **Business Income**
- **Extra Expense**
- Business Income from Dependent Properties

5 The **Loss of Income** coverage is exactly the same as the Business Income policy that we have already studied. However, the Loss of Income coverage in a BOP is for a **full 12 months** with no individual monthly limity set. Payroll expenses are limited however to sixty days. The Business Income coverage comes with a **72 hour time based deductible**, which cannot be eliminated or reduced. The Extended Business Income Coverage is limited to 30 days.

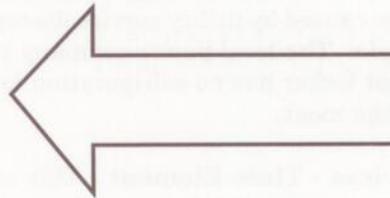
*Loss of Income—
Built-in*

1 Unlike the Commercial Property policy where extensions are earned, under a BOP the **Extensions of Coverage** are **automatic**.

- Personal Business Property on Newly Acquired Premises
- Personal Business Property off premises
- Outdoor Property
- Personal Effects
- Valuable Papers and Records
- Accounts Receivable

2 Optional property coverages are designated on the Dec Sheet and, if selected, require additional premium. Optional property coverages and endorsements include:

- Outdoor Signs
- Employee Dishonesty
- Mechanical Breakdown
- Burglary and Robbery (Standard form)
- Money and Securities (Special form)



But only for 20%
of property limit

LIABILITY COVERAGES

3 The liability coverages under the BOP are almost exactly the same as the Occurrence version of the Commercial General Liability policy. Therefore, the BOP has essentially the same scope of coverages for:

- Premises and Operations
- Products and Completed Operations
- Advertising and Personal Injury and
- Medical Payments

NOTE: Like the CGL, the BOP does **not** cover Workers Comp

4 The major difference between the CGL and the BOP is that the BOP has certain **predetermined fixed limits** rather than the option to pick any limits you wish. The basic occurrence limit is \$1 million, with an upgrade to \$2 million as an option. The general aggregate is double the occurrence limit and the Products and Completed Operations aggregate equals the occurrence limit. Therefore, if you select a \$2 million occurrence limit, your General Aggregate would be \$4 million and your Products and Completed Operations Aggregate would be \$2 million.

5 The standard Fire Legal liability is \$50,000 per fire and can be increased. The Medical Payments limit is \$5,000 per person and cannot be increased.

*Fire legal has
its own limit*

6 The liability section of the BOP is written on an **Occurrence** basis only. There is no Claims-Made version.

7 In almost all other respects, the coverages under the liability section of the BOP are the same as those that you have studied under the Commercial General Liability Policy.

BOP Endorsements †

- **Hired Auto and Nonowned Auto Liability** - This endorsement adds liability coverage for employees using their personal vehicles on the job. If the business owns a Business Auto policy, this coverage is an endorsement to the Auto policy. If the business does not own an Auto policy, this endorsement can be added to the BOP.
- **Protective Safeguards** - A premium adjustment giving credit for a local or centralized burglar/fire alarm or sprinklers.
- **Utility Services - Direct Damage** - This endorsement provides coverage for direct damage caused by utility service disruption stemming from a covered peril. Example: The local power company transformer is hit by lightning and Joe's meat locker has no refrigeration for 28 hours. This endorsement would cover the meat.
- **Utility Services - Time Element** - This endorsement would cover Joe's business income or additional expense losses if the incident described caused an interruption of his restaurant business for 10 days.

Conclusion

1 It could be said that the Businessowners Policy is nothing but a mini prepackaged version of the Commercial Package Policy with certain coverages mandatory and other coverages not available. It certainly has less flexibility than the Commercial Package Policy but it is much easier to understand.

2 The BOP was designed for the low risk, small to medium-sized business, such as a small store, office or apartment complex. High risk businesses, such as manufacturing businesses, are not eligible for coverage under a BOP. Eligibility requirements limit the size of the building, the type of business, and the overall exposure both in square feet and in dollar sales volume.

3 The mandatory coverages under the BOP include the standard property coverages for the building and/or the contents, coverage for Loss of Income and Extra Expense, protection for the property of others, and an automatic seasonal increase on inventory. Settlement is on Replacement Cost basis if insurance to value is 80% or more. The liability coverages are almost identical to the Commercial General Liability coverages with a few minor exceptions and far less flexibility in the dollar amounts of liability coverages.

4 For those low risk businesses that qualify, the BOP is normally an excellent alternative to the more complex but more flexible Commercial Package Policy. You should recognize, however, that it is not a panacea for all qualified businesses. The BOP offered by most companies does not offer automatic coverage for newly acquired buildings, and agreed value coverage are normally not available. If you have a client who truly needs agreed value coverage and want to precisely set his liability limits, you might do well to recommend the more complex (and probably more expensive) Commercial Package rather than the BOP.