

Part III

COMMERCIAL LINES



THE COMMERCIAL PACKAGE POLICY

8



*... pick and
choose...*

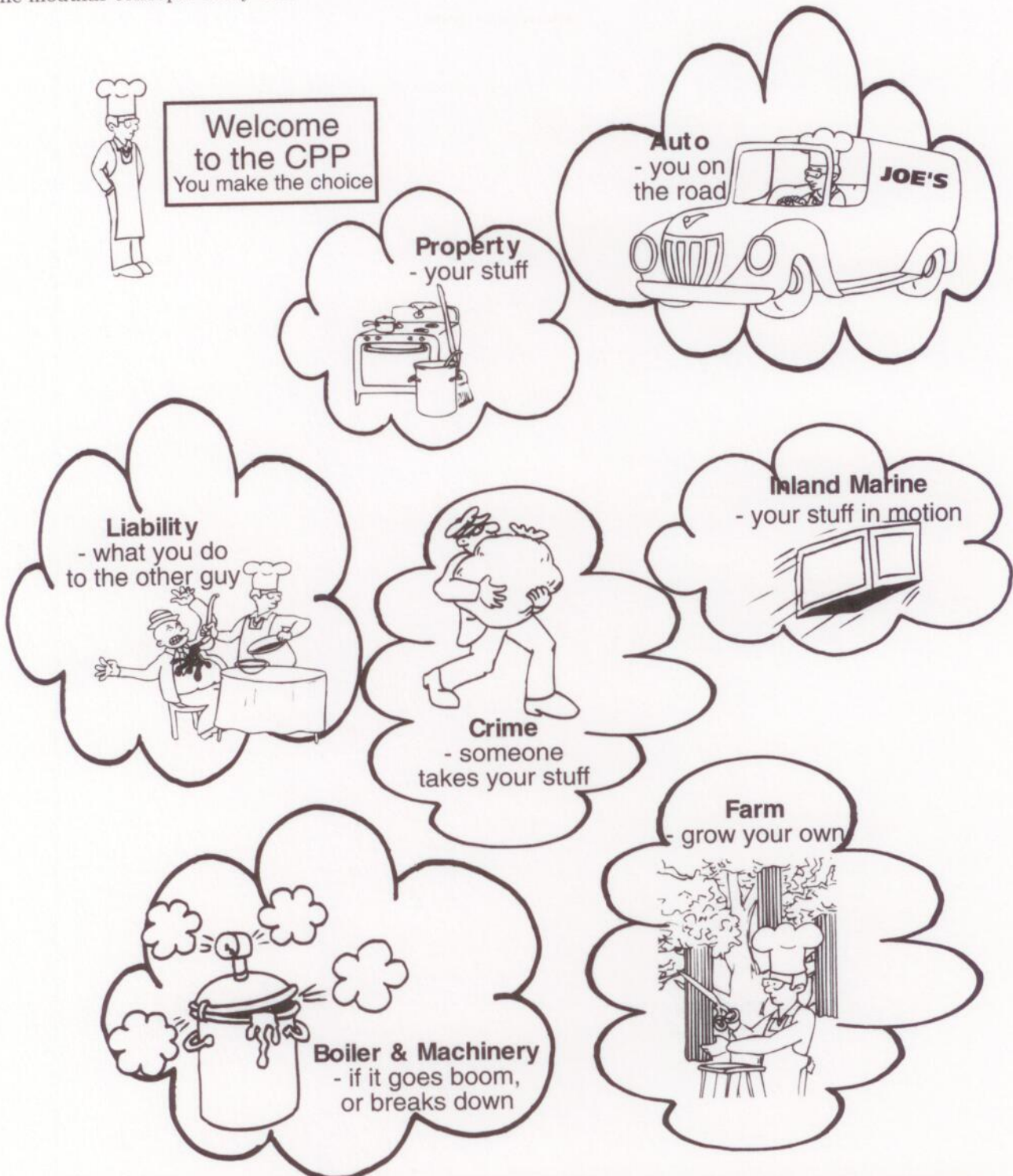
- 1 The insurance needs of modern businesses are varied and complex. A business may own numerous different kinds of property, such as buildings, business property in those buildings, automobiles, computers, inventories, airplanes and data banks. Also, businesses deal with the public in numerous different ways, such as selling products to the public, providing services to the public, selling through direct mail, inviting the public into its buildings. To write one comprehensive policy to handle all of these hundreds of variables is a monumental task. If you write a contract that will work for the most complex business, it will be substantially more complicated than need be for a simple business, so the policy designers face a major challenge.



- 2 The solution is to design units of coverage, or **modules**, that can be used as needed. If the business owns property, then it requires property coverage. If the business has a liability exposure, then it needs liability coverage. If the business has automobiles, then it requires automobile coverage. The modular concept allows the Insured to pick and choose — to buy a coverage form for each type of risk that the business may encounter. The Insured simply selects those modules for which the business has a need.

Modules

- 1 To date there are seven **coverage parts**, or coverages, that have been adopted in the modular concept. They are:



- 2 These seven coverages are the primary coverages for businesses. Your responsibility as the Agent is to recommend those coverages which are required according to each business customer's needs. You will select one or more than one as the need demands. Each can be written by itself as a **monoline policy**, or you may combine any two or more of the seven into a **package policy**.

*Two or more...
...package*

*only one...
...monoline*

THE COMMERCIAL PACKAGE POLICY (CPP)

1 The Commercial Package Policy is built out of the modules, or units, listed above. Anytime you take two or more of the seven coverages and staple them together, you have a Commercial Package Policy. The only time it exists is when you make one. Understanding the Commercial Package Policy is simply a matter of understanding the seven parts of which it may be comprised.

2 The beauty of the Commercial Package Policy lies in its simplicity. All of the coverage parts are updated to reflect changes in technology, legal and social developments and business conditions. The policy structure allows policy rates to be more sensitive to inflation as well as to the actual risks involved. Also, we now have more standardization in the coverages which makes understanding the contracts much less complicated.

COMMON POLICY DECLARATIONS AND CONDITIONS

3 For businesses that need to package several coverage modules together, there is certainly the likelihood of much repetition of basic information from one coverage module to the next. To avoid this duplication and possible contradiction, all common elements have been extracted from the coverage parts and printed once in the **Common Policy Declarations** and the **Common Policy Conditions**. *Both of these forms must appear in every policy, whether it is written as a monoline policy or as a package policy.*



COMMON POLICY DECLARATIONS

"in common"

4 As you can see from your copy of the Common Policy Declarations Page (included in this chapter), it lists the First Named Insured, his/her mailing address and the policy period. Please note that the policy period starts at **12:01 a.m. Standard Time** (1 minute after midnight) **at the Insured's mailing address** as shown on the Policy Declarations Sheet. There is also a description of the business followed by an insuring clause which states that in return for the payment of the premium and subject to all the terms and conditions of the policy, the insurance company agrees to provide the coverages as listed. The next section contains a list of the seven coverage parts that can be made part of this policy. If a premium amount is shown alongside any coverage module, you can assume there is coverage. If no premium is indicated, there is no coverage.

*It will always
be dark out
when cover-
age begins*

Package

COMMON POLICY DECLARATIONS

POLICY NO. _____

COMPANY NAME AREA

PRODUCER NAME AREA

NAMED INSURED _____

MAILING ADDRESS _____

POLICY PERIOD: From _____ to _____ at
 12:01 a.m. Standard Time at your mailing address shown above.

BUSINESS DESCRIPTION _____

IN RETURN FOR THE PAYMENT OF THE PREMIUM, AND SUBJECT TO ALL THE TERMS OF THIS POLICY, WE AGREE WITH YOU TO PROVIDE THE INSURANCE AS STATED IN THIS POLICY.

THIS POLICY CONSISTS OF THE FOLLOWING COVERAGE PARTS
 FOR WHICH A PREMIUM IS INDICATED. THIS PREMIUM MAY
 BE SUBJECT TO ADJUSTMENT.

Equipment Breakdown COVERAGE PART
 COMMERCIAL AUTO COVERAGE PART
 COMMERCIAL CRIME COVERAGE PART
 COMMERCIAL GENERAL LIABILITY COVERAGE PART
 COMMERCIAL INLAND MARINE COVERAGE PART
 COMMERCIAL PROPERTY COVERAGE PART
 FARM COVERAGE PART

NOTE: The Dec
 shows premium
 not limits

PREMIUM

\$ _____
 \$ _____
 \$ _____
 \$ _____
 \$ _____
 \$ _____
 \$ _____
 \$ _____

TOTAL

Premium shown is payable: \$ _____ at inception. \$ _____

Forms applicable to all Coverage parts: _____
 (show numbers)

COUNTERSIGNED _____ BY _____
 (Date) (Authorized Representative)

NOTE: OFFICERS' FACSIMILE SIGNATURES MAY BE INSERTED HERE, ON THE
 POLICY COVER OR ELSEWHERE AT THE COMPANY'S OPTION

COMMON POLICY CONDITIONS

- 1 The Conditions section of any policy is the “If . . . , then . . .” section. *If* there is a loss, *then* you must do this and we must do that. *If* you want to change the policy, *then* we must approve it and put it in writing.

“in common”

- 2 The only unique feature of the Common Policy Conditions is that they apply to all of the subparts of the package policy. Again, they must be included even if the contract is a monoline policy. As we have discussed, the ranking Insured in Commercial policies is the **First Named Insured**. Therefore, every time the policy requires an action on the part of the policyowner, the policy language reads, *The First Named Insured must . . .*

ground rules

Cancellation

- You, as the **First Named Insured**, may cancel the policy simply by giving the company written notice; no lead time is required.
- If the company wants to cancel, it must give you written notice and a reasonable lead time. The lead times vary depending upon which subform is involved. The rules for Commercial Property, for example, are different from those for Commercial Auto.
- No matter who cancels, you will get some refund of unused premium.

notice . . .

. . . refund

Changes

- 3 This section says that the policy contains the entire agreement between the company and the policyowner. Changes requested by the First Named Insured can be made with the company's consent. These changes take the form of a written endorsement attached to and made a part of the policy.

- 4 Most commonly, an endorsement is written to modify but one module of coverage - like Commercial Property. If an endorsement is written to cover several modules or lines of insurance it is called an **interline endorsement**.

Examination of Your Books and Records

- 5 The company reserves the right to examine your books and records at any time during the policy period and for up to three years afterwards.



Look at your books

Inspections and Surveys

- 6 The company has the right (not the obligation) to make inspections and surveys at any time during the policy period. The company will give you reports and recommended changes. These inspections are only for the purpose of establishing insurability and calculating the premium. In no way is the insurance company warranting that conditions are safe or healthful nor that you are in compliance with laws, regulations, codes or standards applicable to your business or building.



Look at your business

Premiums

- 1 The First Named Insured is responsible for paying premiums and will be the person to whom the company will return any unearned premiums.

Transfer of Your Rights and Duties

- 2 This policy can be transferred only with the company's written consent. The only exception is in the event of death of a named Insured, in which case all rights will be transferred to his/her legal representative.

*company's
consent*

Nonrenewal

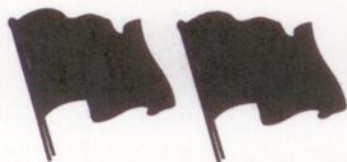
- 3 As with Cancellation, the company must give written notice on a timely basis. Again, the length of the notice can depend upon which subform is being nonrenewed as well as upon the laws of the state in which your business is located.

COMMERCIAL PACKAGE POLICY (CPP)

COMMON POLICY DECLARATIONS



COMMON POLICY CONDITIONS



Property

Casualty

Crime

Auto

Inland
Marine

Equipment
Breakdown
B&M

Farm

Conclusion

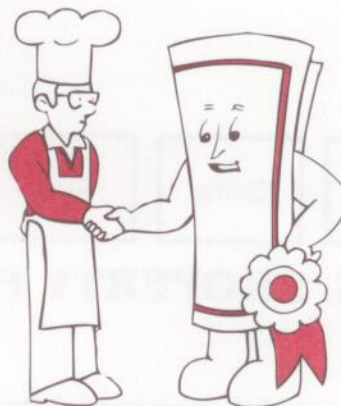
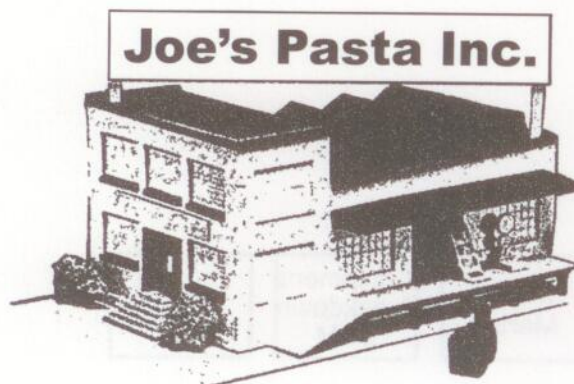
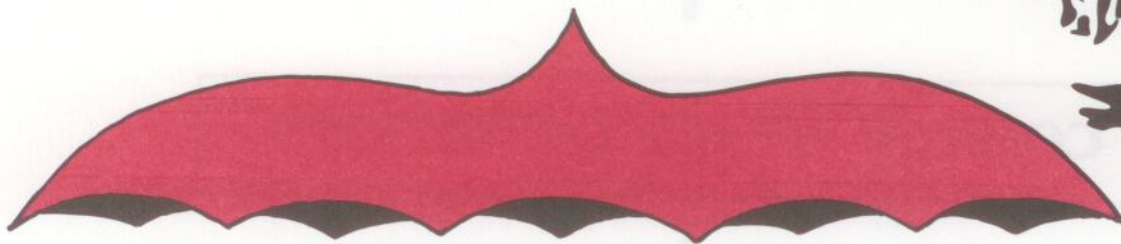
- 1 There are seven coverages that are part of the Commercial Package Policy concept. Each of those modules can be written by itself (as a monoline policy) in which only one coverage is provided. If you wish to combine two or more of the modules into one policy, it is referred to as a Commercial Package Policy. A Commercial Package Policy is nothing more than a combination of two or more of the modular parts.
- 2 Whether you are writing a monoline policy or a Commercial Package Policy, you must use a Common Policy Declarations page and a Common Policy Conditions page. The Common Policy Declarations page, most importantly, determines who is the First Named Insured and what policy coverages have been written. The Common Policy Conditions page contains policy conditions that apply to each and every coverage part that is written.
- 3 We will examine each of the seven coverage modules individually in the following chapters. We hope that you appreciate the simplicity of these forms!



COMMERCIAL PROPERTY POLICY

9

SOURCE:
ISO-CP 2007



- 1 Now that you have had a look at the overall structure of the Commercial Package Policy, let's explore each of its subparts.

- 2 The most important of the modules are the Commercial Property and the Commercial Liability coverages. Very few of your customers will have risks that do not entail some property coverages and some liability coverages, so we will discuss those two coverage forms first. This chapter will deal with the property coverages.

- 3 If your client has any commercial property, then you would use the coverages described in this chapter - the Commercial Property policy. This policy can be used alone, as a monoline policy, or in conjunction with one or more of the other policy forms to form a Commercial Package Policy. In any event, this section of the policy would be the same, whether monoline or a package.

Joe's stuff

COMMERCIAL PACKAGE POLICY (CPP)

COMMON POLICY DECLARATIONS

+

COMMON POLICY CONDITIONS

+



Property

Casualty

Crime

Auto

Inland
Marine

Equipment
Breakdown
B&M

Farm

COMMERCIAL PROPERTY POLICY FORMAT

- 1 One of the beautiful features of the Commercial Property policy is that we have one contract that can be used for **almost all** commercial property. Whether you are insuring a thimble factory, manufacturing plant, retail drug store, warehouse, oil refinery or a condominium association, you use the same basic contract – the Commercial Property policy. This flexibility exists because the structure of the Commercial Property policy raises only two basic questions:

1. What property do you want to insure?
2. From what perils do you want to insure it?

- 2 The answers to these two questions can allow us to insure a business as big and complex as IBM or as small and as simple as Pop's Lawnmower Repair.

*What's covered
What's it
covered from*

WHAT?

- 1 In answering this question, the proposed Insured has thirteen subforms (categories of property) from which to choose. He may need one or more than one of these. For example, if he needs to insure his buildings and personal property, you would use the Building and Personal Property Form. If the customer owns a 20-story glass and steel structure, you would also add the Glass Form. If the customer has a business income risk, then you would add the Business Income Form as well, and so on. The thirteen property subforms are:

1. **Building and (Business) Personal Property**
 - a. Building
 - b. (Business) Personal Property
 - c. Personal Property of others
2. **Business Income**
3. **Extra Expense**
4. **Business Income (with Extra Expense)**
5. **Glass**
6. **Builder's Risk**
7. **Leasehold Interest**
8. **Condominium Association**
9. **Condominium Commercial Unit - Owner's**
10. **Legal Liability**
11. **Mortgage Holders Errors and Omissions**
12. **Tobacco Sales Warehouse**
13. **Standard Property Form**

? #1

- 2 The first three are the most common coverage forms and the ones we will discuss in detail.

FROM WHAT?

- 3 Defining what **Causes of Loss** (perils) covered property is insured against is critically important to the value of any property policy. We started with fire as the only peril and as the needs of the public demanded, we increased the number of named perils. Ultimately, it became simpler to offer *All Risk* coverage to the clients willing to pay for the most extensive coverage. Under the All Risk (or *Open Perils*) concept, every peril is covered except those specifically excluded.

? #2

- 4 One of the most flexible features of the Commercial Property policy is that you can select the peril power appropriate to each category of property listed on the Dec Sheet. For example, you might suggest that a client obtain All Risk coverage on his warehouse as it is exposed to almost every conceivable peril, but the contents of that warehouse are greatly protected by the structure itself. Therefore, you might propose a less expensive named peril form for the contents.

- 1 The three choices of peril power under the Commercial Property policy are:



- **Basic** – covers eleven perils
- **Broad** – covers fourteen perils
- **Special** – covers all perils not specifically excluded (sometimes referred to as Open Perils or All Risk)

*Economy Model
Family Sedan
Luxury Model*

- 2 The more perils that are covered, the better the contract, but also the more expensive.
- 3 It is the job of the Agent to guide the Insured in selecting the peril power that is consistent with his or her needs and ability to pay.

WHEN DOES IT PAY?

- 4 Following a loss, a claim is paid only if you get a yes to both questions posed below:

Two Questions

WHAT'S COVERED

DIRECT

Building
(Business) Personal Property
Personal Property of Others

INDIRECT

Business Income
Extra Expense



FROM WHAT

BASIC (11)
BROAD (14)
SPECIAL (all except)

- 1 Suppose your building is insured under a Special Cause of Loss form. If it is destroyed by fire, you get a yes to both questions and the claim is paid. But suppose the building is destroyed by earthquake. Now the building is insured, but not from the peril of earthquake – no valid claim. Now suppose that the building is insured by a Special Cause of Loss form, but there is no Business Income coverage. If the building is destroyed by fire, you get two yes answers on the building loss itself and the claim is paid. But no loss of income benefits would be paid while the building is being rebuilt. The “From What?” answer is yes, but the “What’s Covered?” answer is no – no benefits.

PROPERTY DECLARATIONS & PROPERTY CONDITIONS

- 2 As you learned in the last chapter, all seven of the coverages that could be found in a Commercial Package Policy are subject to the Common Declarations and Common Conditions. The logic was that it made more sense to say something once rather than repeat it seven times.



- 3 That same logic is applied again within the Property module that we are addressing now. There are thirteen kinds of property that can be insured under the Commercial Property policy and they can be insured against the perils of the three major Cause of Loss forms. If we can say something once instead of several times, we should do so. For this reason, we have a set of **Property Declarations and Conditions** in addition to the **Common Declarations and Conditions** we have already discussed. The former deals with all of the **property** coverages contained in the policy while the latter deals with all of the policies under the common umbrella of the Commercial Package Policy.

- 4 Therefore, if you are constructing a Commercial Property policy (monoline or as part of a package), the first four pages you would assemble would be the following:

- Common Policy Declarations
- Common Policy Conditions
- Commercial Property Declarations
- Commercial Property Conditions

CUSTOMIZING ENDORSEMENTS

- 5 There are scads of endorsements that can be used to customize a property policy according to the needs of your customer. Examples of customizing endorsements include coverage for outside signs, radio/television antennas, burglary and property protection systems, protective safeguards like sprinkler systems, alcoholic beverage tax exclusions, etc. Many of these endorsements buy back coverages that are excluded in the basic property policy. Over time, you will become familiar with these endorsements as the need arises. However, we will not deal with them to any great extent in this book.

NEXT STEPS

- 1 Let's review where we are. There are seven major coverage forms in the Commercial P&C business, such as Commercial Property, Commercial Liability, Crime, Inland Marine, and Automobile. It's possible to write each of these as a separate coverage . . . as an individual policy. It's also possible to combine two or more of these coverages into one policy, which would then be called a Commercial Package Policy. Each of these individual coverages may have its own Declarations and Conditions section and there's also a Common Declarations and Conditions section that covers all of the subparts of the policy.

- 2 We are now going to explore the Commercial Property coverages in further detail. The Commercial Property coverages can be subdivided into eleven coverage forms, such as Building and Personal Property, Business Income, Extra Expense, Glass, Condominium Association, Tobacco Sales Warehouses, etc... We will dissect the first three of these forms in detail, and you will become familiar with the remaining forms in the future as the need arises. We will also look at the four Cause of Loss forms in the process.



DICE**COMMERCIAL *PROPERTY* COVERAGE PART
DECLARATIONS PAGE**

POLICY NO.

EFFECTIVE DATE 1 / 1 / This Year☐ "X" IF SUPPLEMENTAL
DECLARATIONS IS ATTACHED

NAMED INSURED

There may be more than one "Named Insured"

DESCRIPTION OF PREMISES

PREM. NO. BLDG. NO. LOCATION, CONSTRUCTION & OCCUPANCY

COVERAGES PROVIDED

INSURANCE AT THE DESCRIBED PREMISES APPLIES ONLY FOR COVERAGES FOR WHICH A LIMIT OF INSURANCE IS SHOWN.

PREM. NO.	BLDG. NO.	COVERAGE	COVERED CAUSES OF LOSS	COINSURANCE	RATES
		BUILDING			
		BUS. PERS. PROP	SPECIAL	80%	
		PERS. PROP OTHERS	BROAD	100%	
		BUSINESS INCOME	BASIC	70%	
			SPECIAL	50%	

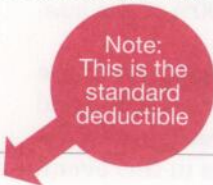
* IF EXTRA EXPENSE COVERAGE, LIMITS ON LOSS PAYMENTS

OPTIONAL COVERAGES APPLICABLE ONLY WHEN ENTRIES ARE MADE IN THE SCHEDULE BELOW

PERM.NO.	BLDG. NO.	AGREED VALUE EXPIRATION DATE COVERAGE	AMOUNT	REPLACEMENT COST (X) BUILDING	PERSONAL PROPERTY INCLUDING STOCK
1	1	1-1-NEXT YEAR BLDG.	\$500,000		X
		INFLATION GUARD (PERCENTAGE)	*MONTHLY LIMIT OF	*MAXIMUM PERIOD	*EXTENDED PERIOD
		BUILDING PERSONAL PROPERTY	INDEMNITY (FRACTION)	OF INDEMNITY (X)	OF INDEMNITY (DAYS)
		12% 10%			
			*APPLIES TO BUSINESS INCOME ONLY		90

MORTGAGE HOLDERS

PREM. NO. BLDG. NO. MORTGAGE HOLDER NAME AND MAILING ADDRESS



Note:
This is the
standard
deductible

DEDUCTIBLE

\$500. EXCEPTIONS

FORMS APPLICABLE

TO ALL COVERAGES

TO SPECIFIC PREMISES/COVERAGES

FORM NUMBER

COMMERCIAL PROPERTY CONDITIONS

- **Concealment, Misrepresentation or Fraud** – If you lie, you lose.
- **Control of Property** – If somebody else is responsible, we'll pay and then...
- **Subrogation** – We'll get him.
- **Insurance Under Two or More Coverages** – We only make you whole.
- **Legal Action Against Us** – You must do your part and then take action against the company within **2 years**.
- **Liberalization** – It can get better, but not worse.
- **No Benefit to Bailee** – This policy is for your benefit, not the benefit of someone holding or doing work on your stuff.
- **Other Insurance** – As we have said, if you have a piece of property insured by two Commercial Property policies that are identical in peril power (concurrent), each company will pay its share of the claim in the same proportion as its policy limits bear to the total. For example:

Share	Insurance Limits	Pro Rata
Company A	\$ 70,000	70%
Company B	<u>30,000</u>	<u>30%</u>
Total	\$100,000	100%

If there is a \$10,000 loss, Company A would pay \$7000 and Company B would pay \$3000 and each would apply its deductible.

Remember, however, if we change the example so that the peril power of Company A's policy does not match Company B's (**nonconcurrency**), things could turn out much differently.

	Peril Power	Insurance Limits
Company A	Basic	\$70,000
Company B	Basic + Earthquake	30,000

If there is a \$10,000 earthquake loss, Company A pays zero. Company B would only pay its share, \$3000. Company B is only receiving about one-third of the premium and therefore should not be forced to cover 100% of the loss.

A very different situation exists within the Commercial Package Policy. There are a few places where two of the seven modules could cover the same loss. For instance, burglar damage is covered by both the property module and the crime module. To coordinate claims in this event, the policies have established an additional rule. **If a loss is covered by two different policy forms, the Property policy is excess; the other module pays 100% first.**

Notes

DICE
you lie, you're
on your own

*we pay, then
chase*

whole not rich

*let him get his
own coverage*

*pro rata -
coverage to
claim*

Same policy

*Primary -
Secondary*



Therefore, if you owned a \$70,000 Property policy and a \$30,000 Crime policy and you suffered a \$10,000 burglar damage loss, the Crime policy would pay the entire \$10,000 claim. If you suffered a \$31,000 loss, the Crime policy would pay to its limit, \$30,000, and the Property policy would pay the excess, \$1000.

- **Policy Period and Coverage Territory** - Obviously, the insurance company only covers losses that occur during the policy period. The coverage territory is:
 - The United States and its possessions
 - Canada
 - Puerto Rico

BUSINESS

BUILDING AND PERSONAL PROPERTY COVERAGE FORM

Almost all Commercial Package Policies will include this form because almost all businesses own some property. The basic coverage selections that can be chosen on the Property Declarations Page are as follows:

- 1
 - Building
 - Business Personal Property
 - Personal Property of Others



- 2

A particular client may need one, two or all three depending upon what he or she owns and the nature of the business. For example, if you own an insurance agency and lease your building, you probably only need coverage for your Business Personal Property. If your landlord occupies no space in the building, s/he probably only needs coverage for the building. A TV repair shop that owns its own building would need all three coverages. Let's examine each coverage in some detail.

What's A Building?

- 3

The term *building* not only includes the building listed on the Declarations Page, but also encompasses more. It includes:

 - Completed additions and additions under construction
 - Permanently installed fixtures, machinery and equipment
 - Outdoor fixtures (flagpole, fountain, hotel swimming pool)
 - Personal property owned by the Insured and used in the service or maintenance of the building, such as:
 - lawn mowers or snow blowers
 - fire extinguishing equipment
 - outdoor furniture
 - appliances used for cooking, laundering, refrigeration and ventilation whether permanently installed or not

*but may not
be covered*

*some "stuff"
is part of
the building*

NOTE: While it might seem silly to classify a snow blower as a building, remember that a landlord really only wants to purchase coverage on the building. By including items used in the **service** of the building in this coverage, the nonresident landlord only needs this coverage.

- Materials, equipment and supplies within 100 feet of the premises used for making repairs, alterations or additions.

BUSINESS

What's Personal Property?

- 1 **NOTE:** All property can be classified as either *real* property (immobile – like a building, or real estate) or *personal* property (movable – like furniture). The term *Business Personal Property* therefore means **movable** property that a **business** owns, i.e., desks, chairs, computers, copy machines. This does **not** include the personal belongings that employees often bring into an office, such as a radio, coat, briefcase, or set of golf clubs. Personal belongings of employees are **Personal Effects** and are **not** covered under a Business Personal Property form. (Don't worry – Personal Effects are covered elsewhere.)



- 2 This coverage, Business Personal Property, is for your **business stuff**. It is covered while in the building described in the Declarations or outside of the building (or outside of the building in a vehicle) if within 100 feet of the building. Your Business Personal Property includes the following:

- Furniture and fixtures
- Machinery and equipment
- *Stock*, which can include inventory, raw materials or finished product
- All other personal property owned by you and used in your business
- Your investment of time and materials **in someone else's property**. For example, you, as a TV repairman, could have \$50 in parts and \$100 in labor invested in a client's TV when your shop burns to the ground.
- Your *use interest* as a tenant in permanent improvements in a rented building

Notes

100ft.



bubble of protection

100ft.



inventory

What's Personal Property of Others?

- 1 This section provides coverage for you if you are responsible for someone else's property that is in your care, custody or control. Businesses like TV repair, computer servicing, dry cleaners and furniture repair need this coverage. In *insuranceese*, we say this is a *bailee's-like* coverage. Coverage is provided if the property is inside your premises or out in the open (or in a vehicle) within 100 feet of your building.

100ft.



PROPERTY NOT COVERED

- 2 Not every kind of property important to every type of business is covered by the basic policy. This is good for us as consumers because it keeps insurance affordable. As an example, the first exclusion eliminates coverage for cash. Most businesses do not need this rather expensive coverage. Those that do can purchase it separately. In fact, almost anything can be covered for a price. The fact that it is excluded here does not mean that it cannot be covered; it simply means that the standard policy does not cover it.

- 3 The excluded property is as follows:

1. **Paper worth something:** cash, deeds, evidence of debt (IOUs), notes or securities
2. **Animals**, unless your business is boarding or selling animals
3. **Autos** held for sale
4. Bridges, roadways, patios or other **paved surfaces**
5. **Contraband**
6. Cost of excavations, grading and backfilling
7. **Foundations** below the lowest basement floor
8. **Land**

NOTE: It might seem a little weird that land is not covered and really weird that foundations are not covered. However, if you think for a moment, you will realize that a \$1,000,000 commercial building might have \$300,000 of its purchase price in the land and \$200,000 of its building cost in the foundation. Since most perils would only do damage from the ground up, excluding the land and foundations allows the client to buy half as much insurance. If you want to cover your foundation and are willing to pay for it – no problem.

9. Personal property that is **airborne** or **waterborne**
10. Pilings, piers or docks
11. **For property covered by another specialty coverage and this general property form, the other policy pays first and this one pays as excess**
12. Retaining walls if not part of the building



no guard dog

*not a Central
American
musical group*



*Rule of thumb:
nothing below
ground*

inland marine

13. **Underground** pipes, flues or drains
14. **Electronic data** – Including data and programs, except as provided under coverage Additions
15. The Cost to Replace or Restore information -- including valuable papers, and records, except as provided in coverage Extensions.
16. **Cars, trucks, boats and airplanes** are not covered here – better covered elsewhere. However, we do cover:
 - Mobile Equipment – bulldozers, farm equipment and forklift trucks (vehicles designed for use off public roads)
 - Rowboats and Canoes – if out of the water at your described business premises.
17. **Crops** that have been harvested but that are outside the walls of building
18. **Outdoor property**, such as fences, radio or TV antennas (including masts, towers and satellite dishes), trees, shrubs and plants. The upcoming Extensions of Coverage can give a small amount of coverage for these items. Note: If you are in the tree and shrub business, your trees and shrubs are your inventory and can be covered.

DICE

autos - no

*mobile
equipment - si'*

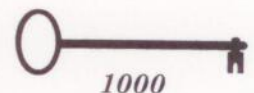
*don't worry -
you'll get it back*

ADDITIONAL COVERAGES

- 1 These extras are automatically built into the contract. You do not purchase them separately nor do you pay extra to get them.
- 2 **Debris Removal** – If a building is destroyed, there are often major costs associated with the clean-up. This coverage is provided as long as the debris is caused by a covered peril.
- 3 If you could buy a policy without the Additional Coverages, you would find debris removal to be limited in two ways:
 - Debris removal costs must be no more than **25% of the loss**.
 - Debris removal cannot cause the policy to pay out more than the policy limits.
- 4 This Additional Coverage called debris removal enhances the coverage provided in two ways:
 - Debris removal can exceed 25% by **\$10,000**
 - Debris removal can exceed policy limits by **\$10,000**
- 5 **Fire Department Service Charge** – If your business is in an area where the fire department charges for a call, we will pay up to \$1000 for your liability for that service charge. This is an additional amount of insurance over the policy limits, and no deductible applies.

*Automatic
and free*

*after a
covered loss*



1 **Pollutant Clean-up and Removal** – We will pay up to \$10,000 in addition to the policy limits to extract pollutants from land or water at your premises caused by or resulting from a covered cause of loss.

2 **Preservation of Property** – If it is necessary to move insured property from the described location to protect it from a covered peril, we will cover it for any direct loss at its new location for 30 days. This coverage **will not** increase the applicable limits of insurance.

30 days all risk

3 **Increased Cost of Construction** – If the building is insured on a Replacement Cost basis, this Additional Coverage applies. Assume that following a covered loss, the Insured discovers that to comply with local law or ordinance he will have to modify his building in some way (e.g. sprinklers, handicapped access) as the rebuilding or repairs are completed. This coverage adds \$10,000 or 5% of his building limit (whichever is less) to cover repairs to the damaged building. This is additional insurance above the policy limits. If the owner had been informed before the loss occurs that these modifications were necessary and had failed to make them, then this coverage does not apply.

4 **Electronic Data** - \$2500 to restore data destroyed or corrupted by a covered peril.

COVERAGE EXTENSIONS

5 Unlike the Additional Coverages, these Coverage Extensions must be earned. You only get these if your coinsurance percentage on the *Dec Sheet* is 80% or more. All of these Extensions of Coverage are in addition to the stated policy limits.

Earned

only if. . .not free

6 **Newly Acquired or Constructed Property** – We will provide coverage for new buildings constructed upon the described premises or new buildings acquired at other locations.



- The limit for this extension is \$250,000.
- This extension can also apply to your Business Personal Property contained in the new building. The limit for contents is \$100,000.
- This coverage is valid for only 30 days after you acquire the new building or begin to construct the new building.
- You pay from day one.

30 days coverage

billed from day 1

7 **Personal Effects and Property of Others** – This Coverage Extension is particularly valuable as it gives you a couple of coverages you have not had yet under this policy.

- **Personal Effects** – These are your or your employees' personal belongings that happen to be at the office, such as golf clubs, jogging shoes, purses, pictures of kids, bowling trophies, etc. This Coverage Extension covers these personal effects for everything except theft.

truly personal

- **Property of Others** – This Coverage Extension is important for businesses that choose **not** to get the Personal Property of Others coverage under the Building and Personal Property Form. This is because a business could have an exposure of damage to clients' property, even though it does not normally take in customers' property to repair, service, store, etc. For example, suppose you have an insurance agency. You don't take in customers' property to repair, store, etc., (like a TV repair shop owner or a dry cleaner does) but you may have a client drop by, hang up an overcoat, leave a briefcase, and walk across the street with you for lunch. If, during your absence, your building burned down and your client's stuff were destroyed, this Coverage Extension would cover the loss of this client's property – **even for theft**.

- 1 The limits on this Coverage Extension are fairly low – **\$2500**. Therefore, it would not be wise for a TV repair shop to **not** buy the Personal Property of Others coverage and count on this Coverage Extension to cover the 25 televisions belonging to his customers.



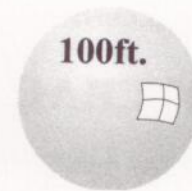
2500



2500

- 2 **Valuable Papers and Records — (Other than Electronic Data)** – As indicated in Exclusion #14, we generally do NOT pay for the cost of recovering lost information. Under this extension, we throw you a bone – a very tiny bone. We'll pay up to \$2,500 for the cost of lost information.

- 3 **Property Off-Premises** – For the most part, the policy covers property at or within 100 feet of the described location. This extension provides coverage for your business property away from your premises for up to **\$10,000**. This does not apply to property in a vehicle, in the custody of a salesperson or property at a fair or exhibition.



100ft.

- 4 **Outdoor Property** – Exclusion #18 eliminated coverage for outdoor property such as fences, radio and TV antennas, satellite dishes, trees, shrubs and plants. This extension gives you a tiny bit of coverage for these items if the damage is caused by:

- Fire
- Lightning
- Aircraft
- Riot
- Explosion

*Here you get
your outdoor
stuff... told
you not
to worry*

- 5 The dollar limit for any of these items is \$1000 and no more than \$250 for any one tree, shrub or plant.

*take your trees
home at night*

LIMITS OF INSURANCE

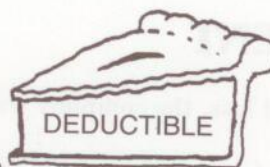
- 6 The company will pay the amount of each loss up to the policy limits. Therefore, if you have limits of \$100,000 and suffer a \$90,000 covered loss, the company will pay \$90,000; if you have a loss of \$110,000, the company will pay \$100,000. The only exceptions to this rule are the Extensions of Coverage; the Fire Department Service Charge, Debris Removal, Pollution Clean-up coverage and Increased Cost of Construction, which can obligate the company to pay more than the policy limits.

Lower
loss
limit

- 7 The Commercial Property policy limits coverage for signs to \$2,500. This is the amount of coverage for either an attached or detached sign. Larger limits are provided by endorsement or by purchasing an Inland Marine policy.

DEDUCTIBLE

- The deductible is found on the Dec Sheet.
- The company will only pay losses that exceed the deductible and then only up to the applicable limit of insurance.



DICE

LOSS CONDITIONS

- 1 **Abandonment** – If you suffer a partial loss, you may not abandon your property to the company in order to collect the full insured value.

- 2 **Appraisal** – If you and your company disagree over the value of insured property, either side can request appraisal. Each party will select an appraiser and the two appraisers will select an umpire.

- A decision reached by any two of the three is **binding**.
- Each party will pay for its own appraiser, the costs of the appraisal and its half of the cost for the umpire.
- The appraisal process is used to determine the value of damaged property. It is not used to decide if coverage exists.

binding

only dollars

YOUR DUTIES IN THE EVENT OF A LOSS

DICE

- Notify the police if a law has been broken.
- Notify the insurance company promptly.
- Give the company a **description of the loss**.
- **Protect the property from further damage.**
- If the company requests, **complete an inventory** of the damaged and undamaged property.
- Allow the company to **inspect the damage and your records substantiating the loss**.
- If requested, permit the company to **question you under oath**.
- If the company requests, complete the Proof of Loss forms within **60 days**.
- Cooperate with the company in the settlement of the claim.

LOSS PAYMENT

- 1 In the event of a covered loss, the company will do one of the following:
 - Pay the Actual Cash Value of the loss and take the damaged property as salvage.
 - Pay the cost to repair or replace the damaged items.
 - Repair or replace it with property of like kind and quality.
- 2 The company will not pay you more than your insurable interest in the damaged property.
- 3 The company will pay (or refuse to pay) within 30 days after receiving your written Proof of Loss.
- 4 To summarize, the sequence is as follows:
 - **Notice** – Promptly
 - **Proof of Loss** (if required) – 60 days from date of company's request
 - **Payment of Claim** – 30 days

*company's
choice*

Done in 90 days

RECOVERED PROPERTY

- 5 If either party recovers insured property after payment of a loss, the other party must be notified. It is then your option to return either the dollars or the property to the company.

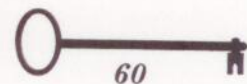
VACANCY

- 6 In most states, it is the option of the company to simply cancel insurance altogether on vacant buildings. However, there could be vacant buildings upon which the company is willing to continue coverage.

If a building has been vacant for more than **60 consecutive days** before a loss, the company will not pay for loss by the following perils under any Cause of Loss form.

- Vandalism
- Sprinkler leakage (unless you have protected the building from freezing)
- Building glass breakage
- Water damage
- Theft
- Attempted theft

DICE



fewer perils

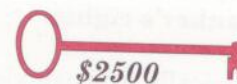
Any claims the company **does** pay for perils still covered will be reduced by 15% of what the company would ordinarily pay.

fewer dollars

VALUATION

- 1 The no-frills Commercial Property Policy is designed to pay losses on an Actual Cash Value (ACV) basis. Other rules include:

- If a building loss is under \$2500, the company will pay on a Replacement Cost basis.
- Inventory is valued **wholesale**, not retail. If Betty buys refrigerators for \$300 and sells them for \$500, then ten units are valued at \$3,000.
- Improvements made by an insured tenant will be settled ACV if the repairs are made immediately. If repairs are not made immediately (or not at all), the company will pay in proportion to the percentage of the lease that remains prior to expiration. For example, if an insured restaurant owner spent \$10,000 to build a lunch counter in a leased space and it were destroyed in the eighth year of a ten year lease, the company would pay only \$2000 if the Insured chose not to replace the counter.



no profits

use interest

COINSURANCE

- 2 As you learned in Chapter Three, coinsurance is a device used by insurance companies to encourage policyowners to insure their property for amounts that are close to the value of the property. There is a reward if you do and a penalty if you do not. The *standard* coinsurance requirement is 80%, but there is nothing magic about this figure. It could be 90% or 100%. Typically, you can reduce your rates if you agree to a higher coinsurance percentage. To review:

- **Coinsurance does not apply to total losses.** If you grossly underinsure a building that burns to the ground, the company will pay the dollar limits you purchased. Essentially, you have established your own penalty.
- If you suffer a partial loss and **have met the coinsurance requirement**, there is no penalty. The company rewards you by paying the entire partial loss.
- If you suffer a partial loss and **did not meet the coinsurance requirement**, the company will penalize you in accordance with the following formula:

$$\frac{\text{Did Carry}}{\text{Should Carry}} \times \text{Loss} - \text{Deductible} = \text{Amount Paid}$$

- 3 Assume a \$100,000 building, 80% coinsurance, a \$40,000 policy, a \$10,000 loss and a \$500 deductible.

$$\begin{array}{r} \$100,000 \\ \times .80 \\ \hline \$ 80,000 \end{array} \text{ Should Carry}$$

$$\frac{\$ 40,000}{\$ 80,000} \times \$10,000 \text{ Loss} = \$5,000$$

$$\begin{array}{r} \$ 5,000 \text{ Subtotal} \\ - 500 \text{ Deductible} \\ \hline \$ 4,500 \text{ Amount to be paid} \end{array}$$

DICE

insure to value

partial losses only

...we're not tyrants after all

Remember - always start with what it's worth today

MORTGAGE HOLDERS

Notes

DICE

- 1 The mortgage holder or mortgagee is **the bank** holding an interest in your property as described on the Dec Sheet. The purpose of this section is to **protect the banker's rights**.

- 2 Basically, you can view the bank as the shadow of the policyowner. Any rights or obligations that you fail to exercise become the bank's. If you do not pay the premium, then the bank can (while it simultaneously forecloses on your mortgage). If you don't submit proof of loss within 60 days, then the company will give the bank 60 days to render proof of loss.

*Mortgage
Holders
NEVER Lose!*

- 3 **NOTE:** A variation on this theme is the **Loss Payable Clause**. The Loss Payable Clause also allows the proceeds to be paid to someone other than the Named Insured. However, unlike the Mortgagee Clause the third party under the Loss Payable Clause is not immune from the bad acts of the Insured. For example, suppose Joe bought his restaurant under a land sale contract, and the seller was listed under a Loss Payable Clause. If Joe commits arson, then under the Loss Payable Clause the policy would **not pay** the proceeds to the seller.

- 4 The Standard Mortgage Clause also protects the mortgagee by requiring that the insurance company give the mortgagee notice in the event of policy cancellation. In most jurisdictions the requirement is 10 days notice if the cancellation is due to nonpayment and 30 days for any other reason.

OPTIONAL COVERAGES

- 5 The following Optional Coverages can be selected by marking the appropriate spots on the Dec Sheet.

- 6 **Inflation Guard** – You select a percentage (like 6% or 8%) which will automatically cause your policy limits to increase by that percentage over the year. This is particularly important if your property is in a rapidly appreciating area, or if you have purchased just enough insurance to meet your coinsurance requirement.

*"It's gonna
cost ya. . ."
\$*

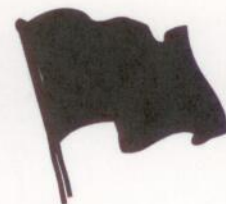
- 7 The inflation-guard idea works reasonably well in keeping the amount of insurance appropriate for the value of the building. However, if inventories fluctuate dramatically during the year (e.g. toy store) then adjustments must be made by notifying the company on a **reporting form**.

- 8 One version of this endorsement is referred to as the **Peak Season Endorsement**; it would work well with risks like the toy store mentioned above.

- 9 The **Full Value Reporting Form** imposes a strict duty of compliance with the reporting clause stated in the policy. The reports must be made within **30 days** after the end of the reporting period.

- 10 **Replacement Cost** – This option insures your property on a Replacement Cost basis (as opposed to the plain vanilla policy that pays on an Actual Cash Value (ACV) basis).

- 11 **Agreed Value** – In most areas of insurance, the concept of agreed value is useful in insuring expensive, irreplaceable items like artworks and antiques. Though a business can use this option in the same way, more commonly, the Commercial Property Contract is written on an Agreed Value basis for an entirely different purpose.



- 1 Suppose that you own a factory built 20 years ago. To replace it as it stands would cost \$20 million, but you could build an equivalent factory using state-of-the-art technology for \$12 million. To meet an 80% coinsurance requirement on your existing building would require that you purchase \$16 million of coverage. However, if you could get your company to issue an Agreed Value contract for \$12 million, you would have funds to do what you intend if a loss occurs and you would save thousands in premium if no loss occurs. In issuing the Agreed Value form, the insurance company is agreeing to **waive coinsurance** in the event of a partial loss. Therefore, partial property losses would be paid in full.
- 2 Whether the Agreed Value is used to cover irreplaceable items or to dodge coinsurance, it is important that this agreement be updated annually as it is not automatically part of the policy renewal process.
- 3 **Spoilage** - This is coverage for spoilage of perishable stock. Perils that can be covered include: power outage, breakdown and contamination.

BUSINESS INTERRUPTION INSURANCE

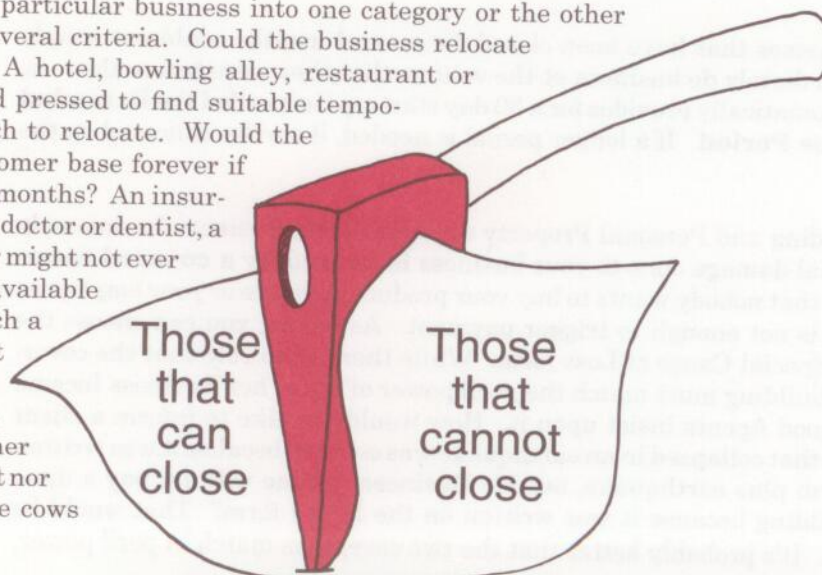
- 4 The next two Commercial Property coverages available from the thirteen Property subforms are the **Business Income** and **Extra Expense** coverage forms. You will also see that it is possible to buy both in one contract.

- 5 Up to this point, our concentration has been on direct loss coverage. That is, if your restaurant burns to the ground, we will replace it. Now, we turn our attention to what may be an even bigger problem. What about the money you fail to earn during the six months that it takes to rebuild the restaurant? This loss of income is an **indirect loss** and can be covered by business interruption insurance. Note: An indirect loss can't happen by itself; it must follow a direct loss.

loss of use

- 6 Let's suppose that we could divide all the businesses in the world into two categories:
- Those that would close temporarily if their building were destroyed, and
 - Those that would continue operations despite it all.

- 7 The assignment of a particular business into one category or the other would be based on several criteria. Could the business relocate (even temporarily)? A hotel, bowling alley, restaurant or factory might be hard pressed to find suitable temporary facilities in which to relocate. Would the business lose its customer base forever if it were closed for five months? An insurance agency, a bank, a doctor or dentist, a newspaper or a lawyer might not ever recover from being unavailable to their clients for such a lengthy period. Is it even possible to shut some businesses down if you tried? A farmer could not stop a harvest nor could a dairy keep the cows from producing milk.



- 1 A partial listing might be as follows:

<u>Those Which Would Close</u>	<u>Those Which Would Not</u>
Restaurant	Dairy
Hotel	Insurance Agency
Bowling Alley	Bank
Shopping Mall	Newspaper Publisher
Grocery Store	Doctors, Lawyers, Accountants

*Either...
pay lots more,
or keep the
doors open*

- 2 Businesses that fall on the *Would Close* list need to purchase the **Business Income Coverage Form**. This coverage is essentially designed to pay the business what it would have earned had no loss occurred. Businesses that *would not close* may not lose income. The newspaper on the above list would continue to sell subscriptions and advertising. Its problem would be the **extra costs** involved in continuing to operate: finding temporary quarters, immediately buying or leasing presses, purchasing ink and paper under exceedingly tight time constraints and maybe subcontracting some of its printing. To cover these additional costs of staying in business, the newspaper needs the **Extra Expense Coverage Form**.

BUSINESS INCOME COVERAGE FORM

- 3 For those businesses that would temporarily close if their building were destroyed, the Business Income coverage will pay for the actual loss of **business income** during the **period of restoration** up to the limits of the policy. Let's examine that promise in a little more detail.

*after direct
losses only*

- You have to prove you lost income – usually on the basis of the past performance of your business.
- Business income is defined as **net income plus continuing operating expenses** (lease, lawyer, accountant, insurance, payroll, etc.)
- The period of restoration is the time elapsed from the date of the loss until the building is or should be repaired with reasonable speed and similar quality.

*History
important*

*net + continu-
ing expenses*

- 4 Since most businesses that have been closed for several months could not simply re-open and immediately do business at the volume that they were before the loss, this coverage automatically provides for a 30 day start-up time called the **Extended Business Income Period**. If a longer period is needed, it can be indicated on the Dec Sheet.

up to speed

- 5 As with the Building and Personal Property coverage form, Business Income only pays if the original damage done to your business is **caused by a covered cause of loss**. The fact that nobody wants to buy your product anymore or your employees are all on strike is not enough to trigger payment. As before, you can choose the Basic, Broad or Special Cause of Loss form. While there is no rule that the coverage on a client's building must match the peril power of his or her Business Income coverage, most good Agents insist upon it. How would you like to inform a client that his building that collapsed in an earthquake was covered because it was written on the Broad form plus earthquake, but his Business Income will not pay a dime during the rebuilding because it was written on the Broad form? That would be tough to explain. It's probably better that the two coverages match in peril power.

Notes

- 1 The only additional situation in which coverage could be triggered under the Business Income form is by action of a **Civil Authority**. If access to your property is prohibited by civil authority because of direct physical loss to nearby property that was caused by a covered cause of loss, you have up to three weeks coverage. (No, this would not work for a street repair problem.)

not street repair

- 2 Like the Building and Personal Property form, the Business Income form has a coinsurance requirement that will penalize you if you are underinsured. However, the **coinsurance requirement in Business Income is typically only 50%**. Therefore, if your business income (net profit plus continuing expenses and payroll) is \$1 million each year, you must purchase at least \$500,000 of Business Income if we assume a 50% requirement. This arrangement is excellent for many businesses as the only two limits of this coverage written with coinsurance are:

*Oh, no,
not coinsurance again*

- The company will pay no more than your losses.
- The company will pay no more than \$500,000.

- 3 There is no limit on how much the company would pay in any one month nor on how many months the company would pay. If your business is so seasonal that you lost \$450,000 in the one month you were closed, the company would pay it. If your building took eight months to replace, the company would continue paying if the limits had not been exhausted.

- 4 Some businesses, however, do not like the coinsurance approach. Suppose an insured restaurant owner had these concerns: "Since I have business income of \$1 million, I am supposed to buy \$500,000 of Business Income, but I don't think I need that much. Most losses are small losses and I think the odds are pretty good that I could be back in business in 30 to 60 days. Therefore, I could get by with, say, \$200,000 of Business Income coverage, and I do not want to pay a coinsurance penalty for underinsuring." For that person, the company will waive coinsurance requirement if he will accept any of the following three alternatives:

- **Maximum Period of Indemnity** – The company will pay for up to **120 days**, not to exceed the policy limit.

Time

- 6 • **Monthly Limit of Indemnity** – The company will pay up to the limits of insurance, but will pay no more than a specific amount each month.

*1/4 same as
25%*

Example: Suppose our client's total insurance coverage is \$200,000. On the Property Dec Sheet, he can choose one of three fractions: 1/6, 1/4 or 1/3. If he chooses 1/4, then we multiply that by the limit to get the monthly limit.

$$1/4 \times \$200,000 = \$50,000 \text{ monthly limit}$$

Now we have two dollar limits. The company will pay no more than \$50,000 in any one month, nor more than \$200,000 total.

- **Agreed Value** – The company and you agree in advance what limits you must carry and what the company will pay. Only if you fail to do what was agreed upon could you be subject to a coinsurance penalty.

*we know up
front*

EXTRA EXPENSE COVERAGE FORM

- 1 This form pays businesses that cannot go out of business for the **extra expenses actually incurred** during the **period of restoration** following a direct physical loss caused by a **covered cause of loss or action of a civil authority**. As you can tell, the approach of the Extra Expense form almost duplicates the Business Income form. The major difference is that Extra Expense is NOT designed to replace income – it is written only to pay extra expenses.

*Extra cost to
keep the
“doors open”
during
restoration*

- 2 About the only difference in structure is the way limits are expressed in the Extra Expense form. As before, the company will not pay more than you can prove you lost nor will it pay out more than the policy limits. However, with Extra Expense, the company will further limit payment by a percentage of the total limit depending upon the length of the period of restoration.

If the period of restoration is ...	The company will pay up to ...
30 days or less	40% of limit of insurance
60 days or less	80% “ “ “ “
More than 60 days	100% “ “ “ “

- 3 Therefore, if you had a limit of \$100,000 and suffered extra expenses of \$50,000 during a period of 25 days, the company would pay \$40,000 (40% of \$100,000). Of course, if your losses were only \$30,000, then that is all the company would pay.

BUSINESS INCOME COVERAGE FORM (INCLUDING EXTRA EXPENSE)

- 4 Okay, okay . . . we admit it. We lied. Not all of the businesses on earth fit neatly into Business Income or Extra Expense. (Actually, we didn't lie. We said, “Let's suppose . . .”) There are some businesses that need both and can buy both under this form. Since you've already studied both forms separately, there is really nothing new to learn. About all that we should do is give you an example of a business that needs both forms.

- 5 Assume we have a client that has a commercial print shop. Fifty percent of his income stems from walk-in traffic with almost no repeat customers. For this part of his business, our client needs Business Income. However, the other half of his income comes from one contract printing job. Our client prints the Sunday Magazine section of the Chicago Tribune. Since he cannot afford to disrupt this part of his business and must meet his contract with the Trib at any cost, he needs Extra Expense for this portion of his business. We should provide the Business Income form (with Extra Expense).

THE CAUSE OF LOSS FORMS: BASIC, BROAD, & SPECIAL

- 1 The coverage section of the Building and Personal Property coverage form we reviewed earlier in this chapter says, "We will pay for direct physical loss to covered property resulting from any **covered Cause of Loss.**" The Business Income form and the Extra Expense form that we just finished discussing say that the company will replace income or cover extra expenses necessitated by the direct physical loss
- 2 of property caused by a **covered cause of loss.** Essentially, these three forms contain half of the insuring clause. We've addressed what's covered; now we need to define **from what.** We complete the insuring clause and form the contract by selecting an appropriate Cause of Loss form. There are two named peril forms and one open perils form as follows:

Basic – 11 perils

Broad – Basic + 3 more = 14 perils

Special – Open Perils (All Risk)

- 3 Our approach will be to review the eleven Basic perils, discuss the additional three of the Broad form and then briefly look at the extra coverages you get from the Special form. As you might guess, all of these forms have exclusions and we will analyze the exclusions after we are comfortable with the peril power of each form.

BASIC Cause of Loss Form

1. **WINDSTORM OR HAIL**
2. **RIOT OR CIVIL COMMOTION**
3. **EXPLOSION**
4. **LIGHTNING**
5. **FIRE**
6. **VEHICLES OR AIRCRAFT**
7. **VANDALISM**
8. **VOLCANIC ACTION**
9. **SMOKE**
10. **SPRINKLER LEAKAGE**
11. **SINKHOLE COLLAPSE**



*economy
model*

*But, unlike
Homeowners,
Theft coverage
is not
automatic*



BROAD Cause of Loss Form

- 1 This form adds three more perils to the eleven of the Basic form. It also adds the additional coverage of collapse.



*family sedan
no Theft*

12. **FALLING OBJECTS** – like a boulder tumbling down a mountain-side. Coverage is generally limited to damage of the insured buildings. Contents coverage is only provided if the exterior damage to the building allowed the contents damage to occur.

through the roof

13. **WEIGHT OF SNOW, ICE OR SLEET** provides coverage for a building that is damaged by the weight of snow, ice or sleet.



14. **WATER DAMAGE** broadens the coverage of the Basic form. Before we look at the modifications of the Broad form specifically, let's review the entire picture of water damage in the Commercial Property contracts.

NOTE: Water damage coverage can be readily understood and remembered if you keep the following three points in mind:

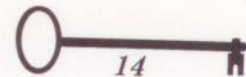
- **Firefighter water** and sprinkler water (even sprinkler leakage) is **always** covered.
- **Mother Nature's water** in the form of a **flood** is **never** covered. (Hence the need for Flood insurance.)
- The Broad and Special forms cover losses due to **intentional water**. That is, water that you bring into the building intentionally in pipes, water heaters, etc. . . . in other words, **plumbing**.

always. . .

. . . never. . .

*. . . broad and
beyond*

Therefore, the Broad form (and the Special form) provides coverage for the damage caused by the **leaking and freezing** of pipes, appliances or systems that contain water. Of course, this only applies if you have done your best to maintain heat in the building. Further, coverage is provided for leakage that is sudden and accidental. Coverage is NOT provided for damage due to seepage or leakage that occurs over a period of **14 days** or more, nor for the appliance or system from which the water escaped.



Additional Coverage: COLLAPSE

- 1 This section provides coverage if any of the 14 Broad form perils damages a building which ultimately collapses. For example, if fire damages a building and it collapses later, there is coverage. In addition, collapse due to any of the following is covered:

- Hidden decay
- **Hidden insect or vermin damage**
- Weight of people or personal property
- Weight of rain
- Defective materials or methods of construction if the collapse takes place during the construction or remodeling.

*bugs...
people...*

...defects...

*"everything
but..."*

SPECIAL Cause of Loss Form

- 2 The Special form covers everything covered by the Broad form and more. It is the *All Risk* or Open Perils form. It covers everything except that which is specifically excluded. There are probably two valid questions that can be raised about this and any other all risk coverage:



1. What am I covered for now that I wasn't before?
2. What's excluded?

*luxury
finally... Theft*

- 3 Both questions are important to your understanding of the Special Cause of Loss form, so we will answer each in turn.

What **New** Coverages Do I Have?

- 4 If you study the fourteen perils of the Broad form, you would be hard pressed to think of any major peril that is not already covered. However, if you attempt to upgrade a client from Broad to Special, you had better have at least one or two examples on the tip of your tongue. There are numerous minor improvements, but the most important addition is **THEFT**. It's not full theft protection because this policy does not cover money, securities, stocks or bonds and, as you will see later, high-target items like jewelry or furs have very low dollar limits. This theft protection is no substitute for the Crime module of the Package Policy. However, for businesses that have little to steal except their furniture, fixtures and inventory, this may be enough.

sticky fingers

What's not covered?

- 5 Oddly enough, anytime you go from a Named Peril form to All Risk, the number of listed exclusions actually increases. While this may be contrary to what you would expect, there is a certain logic to it. The exclusions under a Named Peril contract exist primarily to protect the company against a misinterpretation of a covered peril. However, in an All Risk form, the company has literally thrown the doors wide open and will cover everything except what is specifically excluded. For example, if the Insured lost property as the result of a scam, the loss would be covered unless scams were specifically excluded.



- 1 In examining the exclusions of the Basic, Broad and Special Cause of Loss forms, we will first look at those that are found in all three forms. We will then point out those that are unique to the Special form.

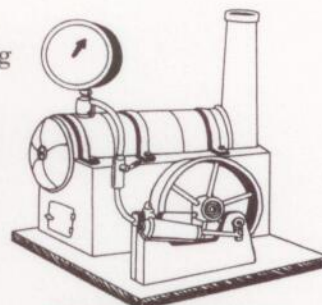
EXCLUSIONS COMMON TO ALL

- **Building Ordinance or Law** – If the costs of rebuilding an insured building would be increased by local ordinances requiring sprinkler systems or fireproof buildings or special facilities for the handicapped, this policy will not cover those additional costs, except for those provided in the Additional Coverages.
- **Earth Movement** – such as an earthquake.
- **Government Action** – seizure or destruction of property by governmental authority is excluded.
- **Nuclear Hazard** – If it glows, it goes.
- **Power Failure** – off premises that causes a loss. For example, food which spoiled in a restaurant freezer that shut down because a power line collapsed down the street.
- **War and Military Action**
- **Flood, Mudslides and Sewer Backup**
- **Leakage or seepage** – of over 14 days or resulting from your failure to maintain heat in the building.
- **Artificially Generated Electrical Current**
- **Explosion of steam boilers**
- **Mechanical Breakdown**

DICE

*This would
make you bet-
ter than whole*

elsewhere



**BETTER UNDER
EQUIPMENT
BREAKDOWN (B&M)**

EXCLUSIONS UNIQUE TO THE SPECIAL FORM

- **Predictable Losses** – like wear and tear, rust, smog and smoke from agricultural or industrial operations.
- **Dishonest Acts** – by you or your employees
- **Voluntary Parting** – with insured property as in a scam
- **Rain, Snow or Ice** – damage to personal property left out in the open
- **Concurrent Causation** – if a loss is caused by a covered peril and an excluded peril, we will only cover the damage attributable to the covered peril regardless of the sequence of events.

DICE

*This stuff
makes sense*

- 1 **NOTE: Because theft is covered** under the Special form, there are some unique exclusions and limitations relating to theft.

- **Theft** – of building materials not attached to the building
- **Inventory Shortage** – with no physical evidence of theft
- **Theft Limitations** – for the following property loss by theft provides coverage only up to the limits indicated:
 - Furs \$2500
 - Jewelry, watches, precious stones and precious metals \$2500
 - Patterns, dies, molds and forms \$2500
 - Stamps, tickets and letters of credit \$250

minor theft

EARTHQUAKE ENDORSEMENT

- 2 As we have noted, all three Cause of Loss forms exclude earth movement. Whether your building was covered by the Basic, Broad or Special perils, you would have no coverage for earthquake. As was the case in Homeowners, the peril of earthquake can be added by endorsement.

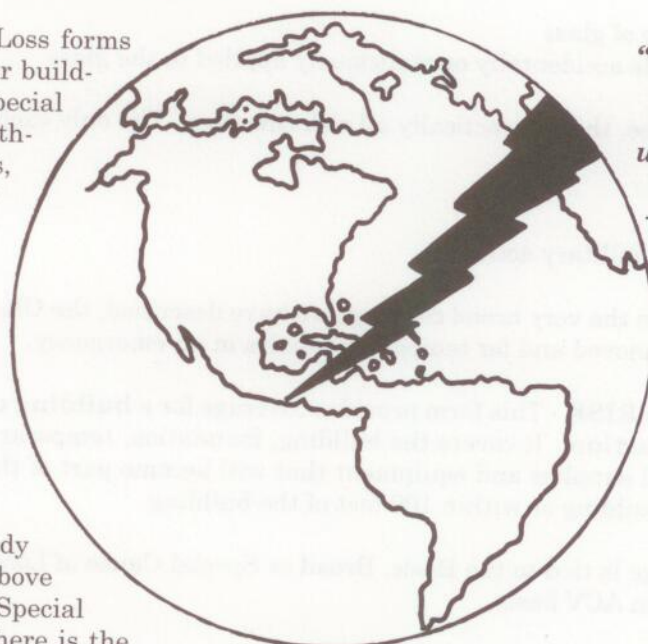
- 3 While the name would imply that this endorsement adds only the peril of earthquake, such is not the case. This is a two peril form adding the perils below:

- Earthquake
- Volcanic Eruption

- 4 You should remember that we have already provided coverage for Volcanic Action (above ground damage) in the Basic, Broad and Special forms. The Volcanic Eruption covered here is the **underground damage** done by a volcano.

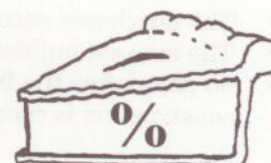
- 5 Beyond this, there are only a few minor things to know about Earthquake.

- Everything except Earthquake and Volcanic Eruption is excluded.
- All earthquake shocks or volcanic eruptions that occur within a **168 hour** period (seven days) will be treated as a single occurrence.
- The deductible is a **percentage deductible** as shown on the Property Dec Page. If you bought earthquake coverage with a 5% deductible on a \$100,000 building, then you have a \$5000 deductible. If your loss is \$20,000, the company will pay \$15,000. The deductible applies separately to each insured building and to the contents of each building.



"I feel the earth ... move ... under my feet. . ."
- Carole King

"E"



THE REMAINING PROPERTY COVERAGE FORMS ‡

- 1 To this juncture, we have examined the most important Commercial Property Coverage Forms. Most businesses have some property they need to insure; most have some liability exposure; and most cannot afford to be out of business very long.
- 2 As you will recall, there are nine other forms that a commercial client may need. We will look at those briefly.
- 3 **GLASS** - This form provides glass coverage to the levels required by many modern businesses. A glass schedule is used to describe the insured glass, identify its location in the building and to describe any lettering or ornamentation. Usually glass is written on an ACV basis and there are two causes of loss. The policy will pay for direct physical loss or damage to covered property caused by or resulting from:
 - Breakage of glass
 - Chemicals accidentally or maliciously applied to the glass.
- 4 As you can see, this is practically all risk coverage. The only exclusions are:
 - Fire
 - Nuclear
 - War and military action.
- 5 In addition to the very broad coverage we have described, the Glass Form provides for debris removed and for temporary repairs in an emergency.
- 6 **BUILDERS RISK** - This form provides coverage for a **building or structure under construction**. It covers the building, foundation, temporary scaffolding and any material supplies and equipment that will become part of the building either within the building or within 100 feet of the building.
- 7 This coverage is tied to the Basic, Broad or Special Cause of Loss form and settlement is on an ACV basis.
- 8 While this coverage is normally written on a completed value basis, the underwriting assumption is that the average exposure from start to finish is about 50% of the completed value. Therefore, the coverage is relatively inexpensive. Oddly enough, there is no condition called *Coinurance*, but most companies effectively require 100% coinsurance under a condition titled *Need for Adequate Insurance*.
- 9 Coverage under Builders Risk ceases when any of the following transpire:
 - The builder's interest ceases.
 - The purchaser accepts the building.
 - The insured builder abandons the project with no intention to finish it.
 - 60 days after the building is occupied (fully or partially), or 90 days after the construction is complete.
- 10 While the builder is normally the policyowner, it is possible for the ultimate building owner to purchase this coverage.

1 **LEASEHOLD INTEREST** - The Leasehold Interest Form is designed to offset the financial damage done to a commercial tenant if a favorable lease is cancelled as the result of physical damage done to the property by a covered cause of loss.

2 Perhaps an example will help. Suppose Joe pays \$5000 a month to lease the building that houses his restaurant and has 36 months left on his lease. Further assume that in today's marketplace Joe would have to spend \$8000 a month for a similar building. If the building were destroyed by fire today, and the owner chose to build a high rise apartment building in that location, Joe would suffer a major financial loss over the next 36 months. If he had spent \$50,000 on betterments and improvements that have not been fully amortized, he is in even worse shape. The purpose of the Leasehold Interest Coverage Form is to offset this risk.

3 Obviously the mathematical calculations required to establish the amount of insurance needed and to compute the claim in the event of a loss are quite complex. On the first day of a 60 month lease the exposure is probably enormous. By the 60th month it is almost nonexistent.

4 For purposes of this course, we will suffice it to say that Joe can cover this exposure with the Leasehold Interest Coverage Form.

5 As with most of the commercial property coverages Joe can choose either the Basic, Broad or Special Cause of Loss form.

6 **CONDOMINIUM ASSOCIATION COVERAGE** - This form is purchased by the residential or commercial condominium association to insure the buildings, hallways, stairways and facilities that the unit owners own jointly.

7 It has the same coverages as the Building and Personal Property form - building, business personal property and property of others. It also has the same Additions, Extensions and Exclusions. It is linked with the Basic, Broad or Special form.

8 **CONDOMINIUM UNIT OWNERS COVERAGE** - A commercial condominium is a condominium for businesses instead of residents. This coverage does for the commercial unit owners what the HO-6 does for the unit owner of a residential condominium. It insures the business personal property of the business housed in the condominium.

9 **LEGAL LIABILITY COVERAGE** - This form is very unique in that it gives you a way to insure property that **you do not own**. Suppose that Joe leases his restaurant space and negligently destroys it in an explosion. His landlord would file a claim with his property carrier who would, in turn, subrogate against Joe. This coverage would pay on Joe's behalf.

10 Like the liability coverages we will study in the next chapter, this form will pay **in addition to the policy limits** for defense costs, investigative costs, bonds required by the court and even Joe's expenses (up to \$100 a day) of being in court rather than at work.

11 As we will discuss in Chapter 10 of this text, there is another, narrower approach to this problem available as part of the Commercial General Liability policy. It is called *Fire Legal*. It is narrower in the sense that it only covers negligent fire damage caused by a tenant. The Legal Liability Coverage Form would cover any negligent damage done by the tenant business that is covered by the Cause of Loss form shown on the Dec Sheet.

- 1 **MORTGAGE HOLDERS ERRORS AND OMISSIONS COVERAGE** - This form is designed for lending institutions who hold mortgages on property. If the mortgage holder errs and fails to purchase insurance on a mortgaged property (or, more likely, fails to verify that the mortgagor did so), this coverage protects the lender, the mortgagor and (for specified perils) the property itself. It also pays damages for which the lender becomes legally liable if real estate taxes are not paid as agreed on behalf of the mortgagor.
- 2 **TOBACCO SALES WAREHOUSE COVERAGE** - This coverage is for the business that receives tobacco from the growers and auctions it to the cigarette manufacturers. It only covers the tobacco for the short period in which it is in the warehouse. Coverage may be written on a Basic, Broad or Special Cause of Loss form.
- 3 **STANDARD PROPERTY COVERAGE** - This form is a *no choices* version of the Building and Business Personal Property Form that we examined in depth. This form contains the same coverages, conditions and exclusions as the earlier form, but none of the options. While it is theoretically possible to use any of the Cause of Loss Forms with this coverage, it is generally written with a Basic Cause of Loss Form to provide what we used to call *Fire Coverage* for an older building.

Difference in Conditions Coverage ‡

- 4 A Difference in Conditions (DIC) form is not technically a property form, nor is it a part of the Commercial Package as it is normally written. So, why discuss it at this point? Well, this Inland Marine form is often purchased by large commercial property risks who purchase the Commercial Property Form with the Basic Cause of Loss form. By adding the DIC form they not only add most of the Broad Form Causes of Loss but also (at their option) earthquake, flood, property in transit and business income for these new exposures.
- 5 Essentially, then, the DIC form fills in some rather significant coverage gaps in the Commercial Property contract. As you would suppose, it excludes the perils already covered by the Commercial Property Basic Cause of Loss form in that these exposures are already covered.
- 6 One unique underwriting aspect of the DIC coverage is that **there is no coinsurance** requirement. Therefore, commercial Insureds using this form need only purchase the amount of coverage they believe necessary for the perils added by the DIC. If the Insured owns a \$1 million building but believes that the potential damage that could be done by a flood is only \$200,000, then only \$200,000 in flood coverage needs to be purchased.

*Full coverage
recipe: Take a
"Basic CPP"
and add a DIC*

*No coinsur-
ance*

The New Peril - Terrorism

1 Up to 9/11/01, commercial property policies essentially covered acts of terrorism at no charge... it was considered to be a rather improbable event. But with losses of \$32.5 billion attributed to the events of 9/11, commercial insurers began to exclude "losses due to acts of terrorism." Congress acted to discourage companies from this reaction by passing the Terrorism Risk Insurance Act (TRIA) in 2002. In 2005, this law was renewed for another two years. In 2007, this law was renewed for another seven years.

2 TRIA defines an act of terrorism as any act certified by the Secretary of the Treasury (in concurrence with the Secretary of State and the Attorney General) which is dangerous to human life, property or infrastructure within the U.S. or on the premises of a U.S. mission outside the U.S. or upon a U.S. flagged vessel. To be certified:

- Damage must be in excess of \$100 million

3 In essence, the Federal Government acts as an unpaid reinsurer when losses exceed an indexed amount. To qualify, a company must offer terrorism coverage to its Commercial Property policyowners. The policyowners may, of course, reject the coverage.

4 Commercial P&C companies pay losses up to a certain level based on size and thereafter "share" losses with the Federal Government in accordance with an indexed coinsurance percentage.

5 The government's cost cap on this program is \$100 billion per year, but the feds can recoup some or all of its expenditures from the Commercial P&C industry as a whole. Companies participating in this repayment will do so by levying a surcharge (capped at 3%) on policies covered by this program.



Conclusion

- 1 Commercial Property policies cover your business stuff: the building you own, the business property you own or lease, and other people's stuff in your possession at your business. Let's take a quick look at what we can cover and what we won't.
- 2 —If you want to cover the structure you own that houses your business, you'd need to buy **building** coverage. A building is the walls, roof, floor, wall to wall carpeting, permanently installed stuff (central air, lunch counter), construction materials within 100 feet of the building, and a fire extinguisher or snowblower. Maybe even a microwave oven.
- 3 —If you want to cover your business property (fax machines, copiers, computers, office furniture, inventory, parts, etc.), you'd buy **Business Personal Property** coverage. It covers your business stuff inside the business or within 100 feet of your business.
- 4 —If in your business you take custody of other people's property - say you are in the dry cleaning business, or you operate a TV repair shop - you have a responsibility for your customer's property. You need to purchase **Personal Property of Others** coverage. It covers other people's stuff in your care, custody or control that's either inside your business or within 100 feet of your business.
- 5 —If you want to still have some money coming in while your business is closed due to damage by a covered peril you'd buy **Business Income** coverage.
- 6 —If your building is damaged by a covered peril and you must relocate and stay open while the damage is being fixed you'd buy **Extra Expense** coverage to pay for the unanticipated expenses you'll incur.
- 7 —Some of the things not covered by a **Commercial Property policy** are spelled out here in lovely poetic form.

*You have no coverage for animals or money,
Your car is not covered, so sorry honey.
Foundations are excluded, as is your land,
And we never cover your contraband.
We exclude fences, your tree and your shrub,
But extensions can cover them, so don't sweat it, Bub.*



- 1 When you buy a Commercial Property policy you get some **additional coverages** absolutely free. There are only 5 additional coverages. They are **Debris Removal, Preservation of Property, Fire Department Service Charge, Pollutant Clean-Up and Removal, and Increased Cost of Construction**. To help remember the **additional coverages** just think of the 1960's Western, Rawhide as you sing, "Clean it up, put it up, put it out, build it up, mop it up....*Rawhide*"
- 2 Remember that a **Commercial Property policy** also offers coverage **Extensions**. You only get these if you are **80%** insured to value. Some of the Extensions are: **Coverage for a New Building and/or Property, Coverage for Personal Effects and Property of Others (\$2500), Coverage for Business Property Off Premises (\$10,000), And Coverage for Outdoor Property, Trees and Shrubs (\$1000 max, only \$250 for a tree).**
- 3 **Commercial Property** losses are settled on an **Actual Cash Value** basis. Both the building and contents are covered **Actual Cash Value** on an unendorsed policy. One important exception: If a building loss is under \$2500 the company pays on a **Replacement** cost basis.
- 4 If you have a loss you must notify the company **promptly**. If the company requests, you must submit proof of loss within **60 days**. The company then must pay or reject your claim within **30 days**. Therefore, the whole claims process will be completed within **90 days**.
- 5 Know your perils. There are **11 perils covered with the basic form, 14 perils plus collapse** are covered by the **broad peril form** and the **special peril form** covers everything except for what is excluded.

