CISR INSURING COMMERCIAL PROPERTY

LEARNING GUIDE

RISK & INSURANCE
EDUCATION ALLIANCE

Insuring Commercial Property

THE CERTIFIED INSURANCE SERVICE REPRESENTATIVE PROGRAM

Commercial Casualty I

Commercial Casualty II

Insuring Commercial Property

Insuring Personal Auto Exposures

Life and Health Essentials

Elements of Risk Management

Agency Operations

Insuring Personal Residential Property

Other Personal Lines Solutions

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Insurance policy forms, clauses, rules, court decisions, and laws constantly change. Policy forms and underwriting rules vary across companies.

Contents

A Letter from William J. Hold, President/CEO

We know that choosing the right professional development programs to strengthen your career can be challenging. There are many options for you to choose from; so how can you be sure that your time, efforts, and money are being invested and not wasted?

By partnering with Risk & Insurance Education Alliance, you can rest assured that you are also making the best educational choice for your career—no matter what step of your learning path you are on.

For the last 50 years, our designations have been regarded throughout the industry as symbols of quality and trust. Our practical insurance and risk management courses are taught by active insurance practitioners, include policies and forms currently used in the field, and guide you through real-world scenarios to give you a deeper understanding of what your clients are facing today. The knowledge and skills you develop in any one of our courses (or designation programs) can be put to use immediately.

You will build long-lasting relationships with your clients and stay ahead of industry trends, emerging risks, and products that are constantly evolving in our dynamic market. You will have access to the industry's latest learning materials and be the first to hear about new courses. With a learning path customized to fit your needs, you will be better equipped to protect your clients.

Have no doubt that your success is our priority. Whether you are new to your career or a seasoned professional, you are about to embark on a wonderful professional development journey. Thank you for choosing Risk & Insurance Education Alliance as your guide toward a thriving career.

Let's take the first step.

William J. Hold, M.B.A., CRM, CISR

President/CEO

To the Participant

Welcome to Insuring Commercial Property, part of the Certified Insurance Service Representative designation program. This program will provide you with the core knowledge and tools you need in your work as a highly trained insurance service representative.

A Certified Insurance Service Representative (CISR) is recognized as someone capable of analyzing risks, policies, forms, and claims data and communicating that understanding clearly to clients, carriers, and colleagues. As a participant in Risk & Insurance Education Alliance (RIEA) program of study, it is expected that you will not only gain knowledge that will give you greater success in your work, but that you will be challenged to make Risk & Insurance Education Alliance's core values of integrity, innovation, inspiration, and imagination part of your daily practice.

As experts in their fields, RIEA faculty, consultants, and academic directors—each with a commitment to assisting you in your efforts to achieve standards of excellence—have contributed to the content of this course. In this course, you can expect:

- engagement in the learning process
- clear learning objectives supported by essential content
- activities designed to strengthen understanding
- exposure to real-world examples and contexts

As representatives of Risk & Insurance Education Alliance (RIEA), we take great pleasure in welcoming you to this program and to our organization. We are committed to helping you become a successful Certified Insurance Service Representative.

Program Overview

The program overview provides an at-a-glance view of the contents of this Learning Guide. Here you will find section goals, as well as specific learning objectives for every section.

Section 1: Fundamentals of Commercial Property Insurance

Section Goal

In this section, you will develop the necessary foundation of phrases, concepts, and policy provisions needed to counsel clients about their commercial property insurance. The knowledge gained in this lesson is key to understanding the material presented in the remaining sections.

Learning Objectives

1. Commercial Property Exposed
    - Identify types of commercial property with loss exposures and the parties likely to have an insurable interest in that property.
2. Valuation of Commercial Property
    - Define actual cash value (ACV), replacement cost, and functional replacement cost.
3. Coinsurance
    - Explain the coinsurance formula and how it applies after a loss, and describe how the Coinsurance provision may be suspended.
4. Methods of Writing Commercial Property Insurance
    - Differentiate between specific, scheduled, and blanket coverage limits of insurance.
5. Fluctuating Values
    - Identify the ways to provide coverage for business personal property that fluctuates in value.
6. Value Reporting Form Penalty Provisions
    - Calculate the amounts payable under the Value Reporting Form penalty provisions.
7. Conditions
    - Identify the rights and responsibilities of the first named insured.
    - List the Commercial Property Conditions that apply under Commercial Property Conditions (CP 00 90) with particular attention to Transfer of Your Rights of Recovery to Us.

Section 2: The Building And Personal Property Coverage Form

Section Goal

In this section, you will examine the provisions of the Building And Personal Property Coverage Form (CP 00 10) to understand the specific property that is covered.

Learning Objectives

1. Types of Property Covered and Not Covered
    - Identify the types of property covered and not covered by the Building And Personal Property Coverage Form.

2. Additional Coverages and Coverage Extensions
    - Describe the Additional Coverages and Coverage Extensions provided by the Building And Personal Property Coverage Form.

3. Vacancy
    - Explain how vacancy affects coverage and loss payment under the Building And Personal Property Coverage Form.

4. The Rights of Mortgageholders
    - Define the rights of mortgageholders as provided in commercial property coverage forms.

5. Optional Coverages
    - Describe the optional coverages that may be "activated' from the Declarations of the Building And Personal Property Coverage Form.

Section 3: Causes of Loss Forms

Section Goal

In this section, you will learn how to distinguish the differences between the three causes of loss forms offered by commercial property programs.

Learning Objectives

1. Types of Causes of Loss Forms
    - Differentiate between the three Causes of Loss forms: the Basic Form, the Broad Form, and the Special Form.

2. Open Perils Exclusions
    - Describe the three possible losses a business may face related to Ordinance Or Law exposures.

3. Special Form Exclusions
    - Given a loss situation, apply the exclusions of the Causes of Loss – Special Form.

4. Additional Coverage – Collapse
    - Determine instances in which losses are covered under the Additional Coverage – Collapse.

5. Additional Coverage – Limited Coverage For “Fungus,” Wet Rot, Dry Rot, And Bacteria
    - Demonstrate how the Additional Coverage – Limited Coverage For “Fungus,” Wet Rot, Dry Rot, And Bacteria applies to a specific scenario.

6. Additional Coverage Extensions Included in the Causes of Loss – Special Form
    - Ascertain whether a specified cause of loss would be covered by any of the three additional Coverage Extensions included in the Causes of Loss – Special Form.

Section 4: Basics of Time Element Insurance

Section Goal

In this section, you will learn how to recognize the appropriate form of time element coverage for a commercial business.

Learning Objectives

1. Basic Time Element Concepts
    - Demonstrate how requirements for time element insurance can affect coverage.

2. Business Income (And Extra Expense) Coverage Form
    - Explain how the terms “business income,” “extra expense,” and “period of restoration” relate to time element coverage.

3. Time Element Coverage Options
    - Given a description of a business, recommend the most appropriate method of time element coverage.

4. Extra Expense Coverage Form
    - Given a loss situation, explain how extra expense losses are paid.

5. Dependent Properties
    - Describe how dependent property exposures can impact business income.

Section 5: Basics of Commercial Inland Marine Insurance

Section Goal

In this section, you will review exposures regarding property in transit, bailee (care, custody, or control), and specialized property subject for commercial inland marine consideration. It will also cover some of the key features and advantages of this type of insurance.

Learning Objectives

1. Types of Property Eligible as Commercial Inland Marine
    - Identify the types of property considered eligible for commercial inland marine insurance coverage.

2. Commercial Inland Marine Classes
    - Differentiate between filed and non-filed commercial inland marine classes.

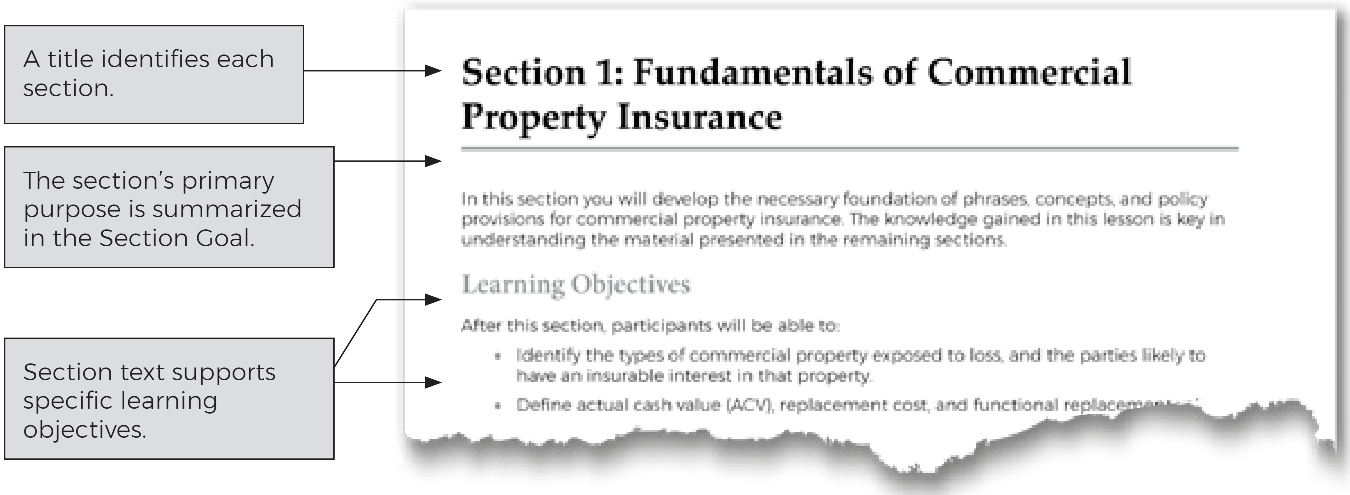
3. Reasons for Writing Commercial Inland Marine Insurance
    - Explain three exposures that are better addressed as commercial inland marine and the advantages of using commercial inland marine insurance over commercial property insurance.

4. Conditions Unique to Inland Marine
    - Identify and briefly explain the conditions and common features of inland marine policies.

How to Use This Learning Guide

The Learning Guide you are using in this course is like all the learning materials published by Risk & Insurance Education Alliance; it has been written and authenticated by industry experts.

Each section in this Learning Guide shares the same features.



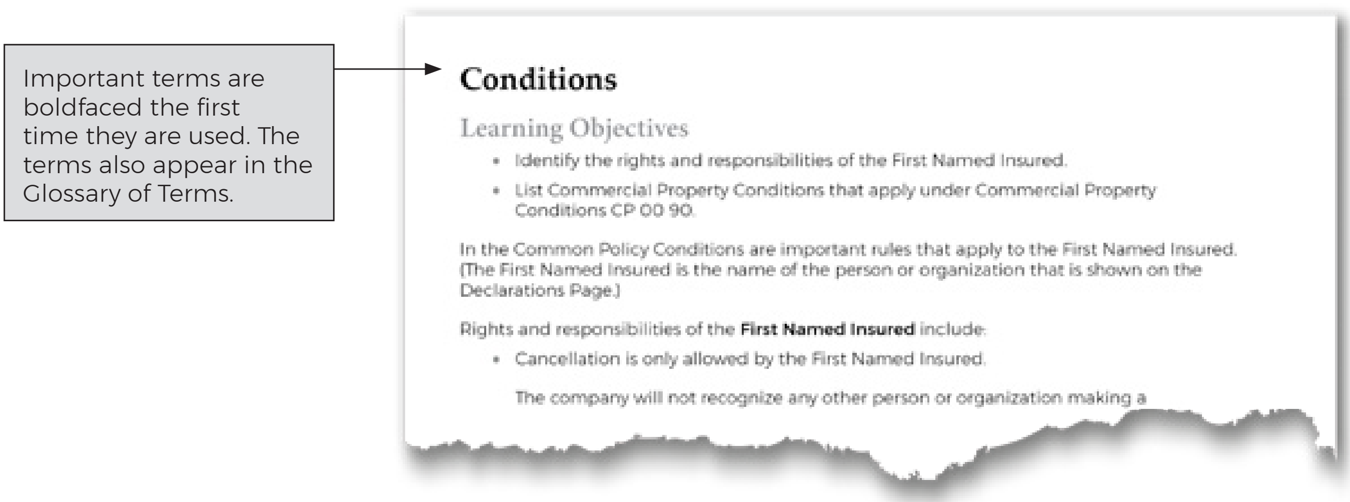
Section 1: Fundamentals of Commercial Property Insurance

In this section you will develop the necessary foundation of phrases, concepts, and policy provisions for commercial property insurance. The knowledge gained in this lesson is key in understanding the material presented in the remaining sections.

Learning Objectives

After this section, participants will be able to:

- Identify the types of commercial property exposed to loss, and the parties likely to have an insurable interest in that property.
- Define actual cash value (ACV), replacement cost, and functional replacement



Conditions

Learning Objectives

- Identify the rights and responsibilities of the First Named Insured.
- List Commercial Property Conditions that apply under Commercial Property Conditions CP 00 90.

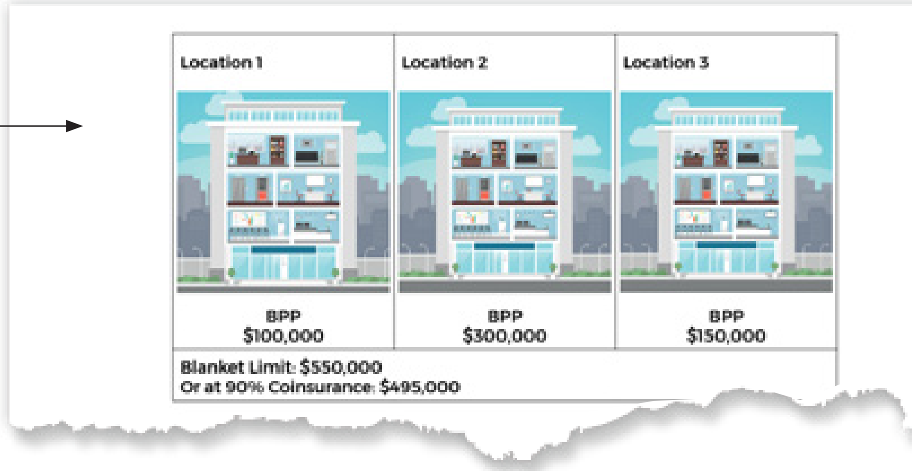
In the Common Policy Conditions are important rules that apply to the First Named Insured. (The First Named Insured is the name of the person or organization that is shown on the Declarations Page.)

Rights and responsibilities of the **First Named Insured** include:

- Cancellation is only allowed by the First Named Insured.

  The company will not recognize any other person or organization making a

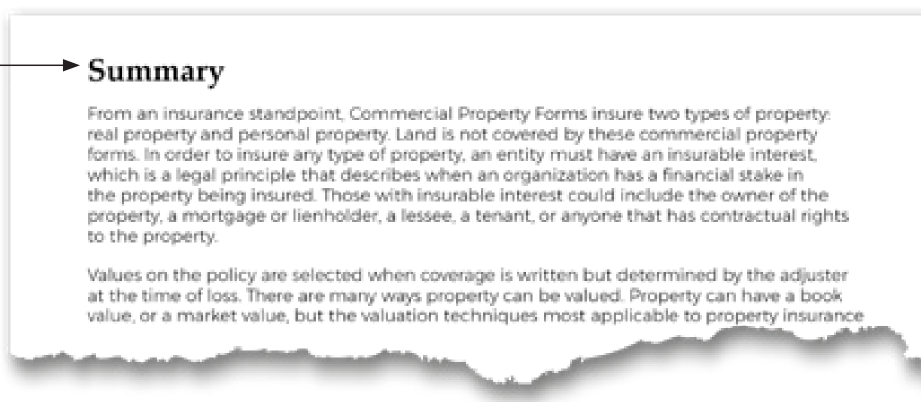
Visuals such as diagrams, graphs, and tables support the text.



Each section opens with an introduction and concludes with a summary.

Introduction to Fundamentals of Commercial Property Insurance

Property insurance is the oldest type of insurance that consumers purchase today. Investments in property, whether a home or a business, have always been important assets to the owner. It is not surprising that long ago, people looked for ways to be made whole should their property be destroyed. In the mid-18th Century, property owners in New England formed mutual insurance companies that provided protection should a building be destroyed by fire or lightning. As this insurance approach to protecting assets grew, more and more insurance companies were formed. Eventually, banks saw that these insurance policies could provide them with assurances that



Summary

From an insurance standpoint, Commercial Property Forms insure two types of property: real property and personal property. Land is not covered by these commercial property forms. In order to insure any type of property, an entity must have an insurable interest, which is a legal principle that describes when an organization has a financial stake in the property being insured. Those with insurable interest could include the owner of the property, a mortgage or lienholder, a lessee, a tenant, or anyone that has contractual rights to the property.

Values on the policy are selected when coverage is written but determined by the adjuster at the time of loss. There are many ways property can be valued. Property can have a book value, or a market value, but the valuation techniques most applicable to property insurance

Examples describe real-world-style scenarios to enhance your understanding of the concepts presented.

Loss Example-Incorrect Values Reported

Joe's CD Land incurs a $10,000 loss. Joe reported $80,000 when, in fact, the business had $100,000 on hand on the date of the Value Reporting Form. The policy says to:

1. Divide the amount reported by the actual amount on hand (or what Joe should have reported), then;
2. Multiply the loss by the percentage derived in Step 1.

To calculate the loss payment for Joe's CD Land:

Step 1: $80,000/$100,000 = 80%

Check-Ins and Knowledge Checks help you test your understanding before moving forward.

Check In

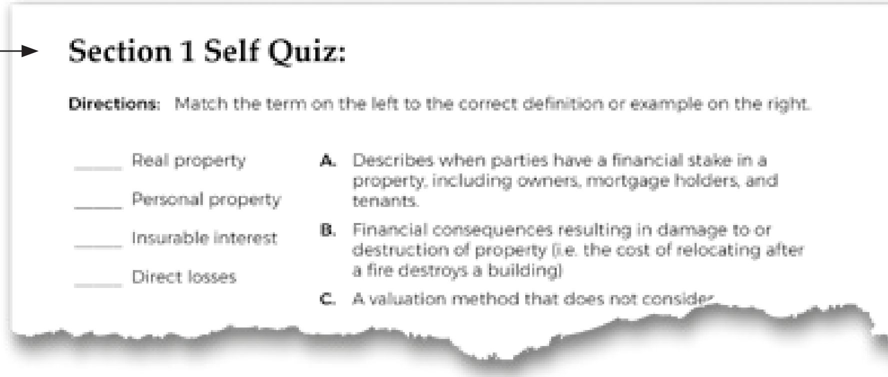
Butler Properties owns three buildings that are leased to others for retail use. When all of these buildings are covered under a single limit of insurance, this is known as:

- ☐ Blanket Insurance
- ☐ Named Perils Coverage
- ☐ Specific Insurance
- ☐ Scheduled Insurance

Knowledge Check

1. Brooklyn Medical Center has insured their building insured for $400,000 with an 80% coinsurance clause. However due to rapid inflation within the construction industry, the replacement cost for this building is now valued at $1,000,000. A fire causes a $100,000 loss to the building. Disregarding any deductible, how much will Brooklyn's insurance company pay?

Each section closes with a quiz to help you assess your learning.



Section 1 Self Quiz:

Directions: Match the term on the left to the correct definition or example on the right.

_____ Real property	**A.** Describes when parties have a financial stake in a property, including owners, mortgage holders, and tenants.
_____ Personal property	**B.** Financial consequences resulting in damage to or destruction of property (i.e. the cost of relocating after a fire destroys a building)
_____ Insurable interest	**C.** A valuation method that does not consider
_____ Direct losses	

A Glossary of Terms puts the Learning Guide's special vocabulary in one, easy-to-use location.

Glossary of Terms

Actual Cash Value (ACV) – the amount equal to the replacement cost minus depreciation of a damaged or stolen property at the time of loss

Agreed Value – an insurance provision through which the insurer agrees to waive the coinsurance requirement. Insurers will require a statement of property values-signed by the policyholder-as a condition for activating or including an agreed value provision in a policy.

Bailee – the party to whom personal property is delivered and entrusted (without transfer of ownership) for a specific purpose

Section 1: Fundamentals of Commercial Property Insurance

Section Goal

In this section, you will develop the necessary foundation of words, phrases, concepts, and policy provisions needed to counsel clients about their commercial property insurance. The knowledge gained in this lesson is key to understanding the material presented in the remaining sections.

Learning Objectives

- *Identify types of commercial property loss exposures and the parties likely to have an insurable interest in that property.*
- *Define actual cash value (ACV), replacement cost, and functional replacement cost.*
- *Explain the coinsurance formula, how it applies after a loss, and describe how the Coinsurance provision may be suspended.*
- *Differentiate between specific, scheduled, and blanket coverage limits of insurance.*
- *Identify the ways to provide coverage for business personal property that fluctuates in value.*
- *Calculate the amounts payable under the Value Reporting Form penalty provisions.*
- *Identify the rights and responsibilities of the first Named Insured.*
- *List the Commercial Property Conditions that apply under Commercial Property Conditions (CP 00 90), with particular attention to Transfer Your Rights of Recovery to Us.*

Introduction to Fundamentals of Commercial Property Insurance

Property insurance has been around longer than any other type of insurance that consumers purchase today. Investments in property, whether a home or a business, have always been important assets to the owner. It is not surprising that long ago, people looked for ways to be indemnified or made whole should their property be destroyed. In the mid-18th century, property owners in the New England area of the U.S. formed mutual insurance companies that provided protection should a building be destroyed by fire or lightning. As this insurance approach to protecting assets grew, more and more insurance companies were formed. Eventually, banks saw that these insurance policies could provide them with assurances that loans on property would be repaid if the property burned. As a result, this widened bank lending for purchase or construction of buildings. As time passed, insurance companies realized they could expand their policies, thus making them more attractive to customers by including additional perils which threatened property. Coverage for windstorm, hail, explosion, and even vehicle damage were eventually added to the traditional fire and lightning policy.

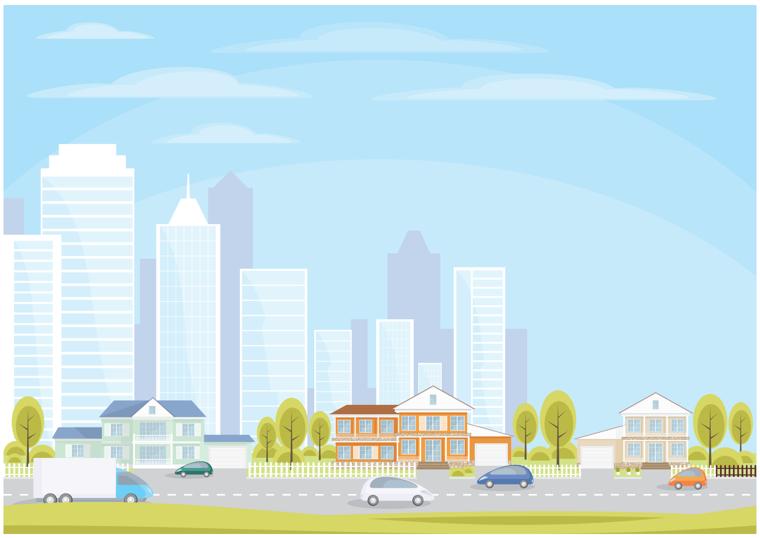
Today, property insurance is widely available from thousands of insurance companies. The policies can cover almost any kind of threat to a specific property. The challenge for the insurance professional is to match the insurance protection to the needs of the customer.

Commercial Property Exposed

Learning Objective

- *Identify types of commercial property loss exposures and the parties likely to have an insurable interest in that property.*

Types of Commercial Property



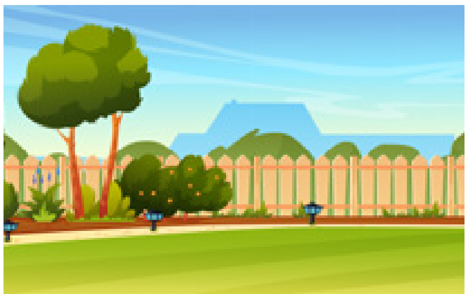
Any property owned by any business can fall into two categories: *real* property and *personal* property. **Real property** consists of things that are affixed or comprise a part of the real estate. **Personal property** would be everything else that is not a part of the real property. While commercial property insurance covers both real and personal property, it does not cover land.

Real property is a legal term and often conveys titled ownership. Although land itself is not covered by commercial property coverage forms, real property is considered to be a part of the land it sits on. This type of real property would consist of buildings, structures (such as fences, carports, or walkways), and outdoor fixtures (such as light poles or benches), and would also include fixtures in a building that are permanently attached (such as ceiling fans). The Commercial Property Policy describes what is considered a "building" and may include specific property that would not fit a traditional definition, such as equipment used to service the building.

It is important that the insurance agent, the policyholder, and the company all agree on what property meets the definition of "building" to ensure appropriate rates and adequate coverage in the event of a loss.

Personal property is any property that is not affixed to the real estate or that can be physically moved. Examples include equipment, supplies, office furniture, inventory, or other property used to operate the insured's business. Personal property owned by others but in the care, custody, or control of an insured can also be considered personal property subject to insurance by the insured.

Table: 1.1

Real Property	Personal Property
• Legal term conveying titled ownership • Considered to be part of the land it sits on 	• Not affixed to the real estate or can be physically moved • Property owned by others but in the care, custody, or control of an insured can also be considered insurable personal property 

Check-In

A tornado strikes a building causing damage to both the exterior and interior of the property. Would office furniture damaged in the loss would be considered real property or personal property?

☐ Real property

☐ Personal property

Insurable Interest

Insurable interest, as a legal principle, was first developed when insurance was in its infancy in England. Unscrupulous individuals realized they could profit by buying insurance on the property of others who were completely unconnected to them. In essence, people were gambling on another person suffering a loss. Thus, a perverse incentive was created to destroy property. The government responded by passing the Statute of George II, which made using insurance as a gambling tool null and void. Ever since, for an insurance policy owner to collect after a loss, they must have an insurable interest.

Insurable interest describes when parties have a financial stake in property. Those with insurable interest could include:

- the owner of the property
- a mortgage or lienholder of the property
- a lessee
- a tenant
- a bailee
- those having contractual rights to the property

If a building is occupied by its owner, that owner would obviously have an insurable interest in the building and personal property. If the owner leases the building to tenants, he or she may insure the structure and then write the lease so that the tenant is responsible for insuring their personal property and improvements and betterments to the building, such as their inventory, fixtures, and equipment. Mortgagees or lienholders may also have an insurable interest in the landlord's or tenants' property. In addition, businesses often have insurable interest in leased property, such as phone systems or copy machines, via contractual agreements.

Types of Loss

Entities are considered to have an insurable interest in property when they are subject to an adverse financial impact in the event of a property loss. This can either be through direct or indirect (also known as consequential) losses.

Direct losses refer to the actual damage to tangible property. If a fire was to break out in a restaurant, the building and the business personal property within that building will likely experience direct damage.

Indirect losses are not inflicted by the peril itself but are instead the financial consequences of the direct loss. After a fire causes direct damage to a restaurant, that business will be unable to resume operations until it has rebuilt or relocated. Even if the restaurant is able to easily relocate, they may still incur significant costs related to the move and advertising of their new location. The income lost and additional expenses incurred during this closure represent indirect losses.

A business may also suffer indirect losses due to events that occur away from its premises. For example, a lumber mill may be forced to shut down after wildfires destroy millions of acres of timber. The potential amount of an indirect loss is not related to the value of the damaged property, but rather to the impact a closure may have on their regular revenue. While not all types of indirect loss may be insurable, business owners may still secure protection from business interruption losses through the addition of a time element coverage form to their Commercial Property Policy. Time element coverage forms will be discussed in Section 4 of this Learning Guide.

Knowledge Check

An office building owner who has a mortgage on the building with a local bank has four tenants leasing space in the building. Considering the building owner, the tenants, and the bank, describe the insurable interest (if any) each party has in the building.

Valuation of Commercial Property

Learning Objective

- *Define actual cash value (ACV), replacement cost, and functional replacement cost.*

In the event of a loss, a businessowner's primary concern of may be how much they will be able to recoup from their insurance policy. Most agents' errors and omissions claims arise from not having adequate limits on the property policy.

Valuation of property refers to how the financial value of an insured property is determined. The valuation is what is used in setting a limit of insurance when the policy is written and for payment of claims for lost or damaged property. There are many ways property can be valued. When setting their desired property limits, many organizations are inclined to insure their building for its market value. However, the valuation techniques most often applied in property insurance include:

- Actual cash value
- Replacement cost
- Functional replacement cost
- Selling price (for stock sold but not delivered)
- Value of tenant's improvements and betterments

Actual Cash Value

Actual cash value (ACV) is the traditional valuation method used for insurance policies. To find the ACV of property, first find the cost to replace the property (premises or item) at the time of the loss, and subtract the depreciation that would apply, given the property has been in use for a period of time.

Replacement Cost at Time of Loss | **Depreciation** | **Actual Cash Value**

A building that was built 15 years ago has a current replacement value of $100,000. Because the building has been subject to wear of use and weather for 10 years, it has accumulated 20% depreciation. Its actual cash value would be $80,000.

A policy that uses actual cash value will still rebuild or repair the property using modern construction methods and materials, but since the building value is reduced by depreciation, it allows the business to insure the property for a lower premium.

Replacement Cost

Replacement cost is a commonly used insurance valuation method that does not deduct for depreciation. It is simply the cost to replace the property or item with like kind and quality at today's cost at the time of loss. Technically, while replacement cost would seem to violate the principle of **indemnity** (where the insured is made whole after a loss) and gives the insured new for old, it grew in popularity as a valuation technique due the practical limitations of assessing actual cash value in financing loans for the acquisition of property.

Functional Replacement Cost

Sometimes the replacement of property is simply not feasible, or not desired. With functional valuation, a value is based upon the amount needed to buy or rebuild a property that serves the same purpose as the original property. Typically, the functional valuation is much lower than the cost to replace the property with property of like kind and quality.

A feed store operates out of an old bank building that was built 75 years ago. The original building has a mosaic tiled entrance with brass-framed glass doors, decorative stone work, and marble floors throughout the building. The cost to replace the building with materials of like kind and quality is $2,000,000. The cost to build a new metal building of identical size suitable for operating a feed store is $700,000.

Selling Price Valuation

Commercial property insurance has a clause stating that property the insured has sold, but has not yet delivered, can be valued at its selling price. This is because replacement cost valuation, as understood, would not consider the profit an insured made, but instead considers the cost to replace the property at wholesale prices or at current manufacturing costs. The insured wanting to use this valuation method would need to consider the profit of their sold but not delivered goods in their replacement cost valuations.

Value of Tenant's Improvements and Betterments

When commercial tenants move into a leased space, they often make their own improvements to the property. Many of these improvements are changes to the building's flooring, lighting fixtures, wall coverings, walls, and doors.

Once installed, the improvements are considered, legally and practically, as part of the building which the tenant does not own. However, the tenant does have a use interest in their improvements and betterments, which is calculated if there is a loss to the building. The use interest of the improvements and betterments can be valued based upon the original cost to make the improvements, but at a pro rata value based upon the remaining time left on the lease at the time of the loss.

A tenant moves into a new space after signing a five-year lease and makes $100,000 worth of changes (improvements and betterments) to the interior of the building. Three years later, the building is destroyed in a fire. Due to depreciation, if the tenant's improvements and betterments were not replaced, they would be valued at $40,000.

Valued Policy Laws

In a number of states, there are laws called valued policy laws that govern the valuation of certain property in the event of a total loss. A valued policy law is a legal statute that requires insurance companies to pay the full value of a policy to the insured in the event of a total loss. If the insured's property is totally destroyed by a peril specified within the state law (such as fire), the amount stated on the Declarations of the policy is considered to be the value of the property at the time of the loss and is payable in full. Some states call this a "liquidated demand." These laws were put in place long ago to discourage insurance companies from "overvaluing" property they insured in order to increase premiums.

Knowledge Check

1. Vanessa, the owner of a successful chain of flower shops, purchases a building that she will use to operate a flower shop. Vanessa calls her agent to discuss the newly acquired building and states that she wants to ensure that the payout from her insurance will be sufficient to repair the building and resume operations in the event of a loss. If budget is not a concern, which valuation method should be used in the policy the agent recommends?

2. Vanessa is confused. She asks the agent, “What is the difference between replacement cost and actual cash value?”

Coinsurance

Learning Objective

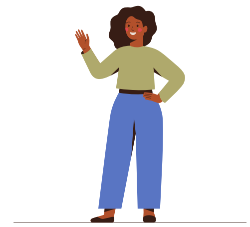
- *Explain the coinsurance formula and how it applies after a loss, and describe how the Coinsurance provision may be suspended.*

The Purpose of Coinsurance

If a building were to suffer some form of property damage from a covered peril, odds are that only a portion of it would need to be repaired. Most building property losses do not result in complete destruction of a building. Many organizations recognize this probability and, as a result, may be inclined to lower the amount of property insurance they purchase. Being underinsured not only results in financial devastation for a policyholder after a catastrophic event, but the widespread consequence of underinsurance negatively affects how insurance companies forecast their loss payments and can lead to increased loan delinquencies within the lending industry.

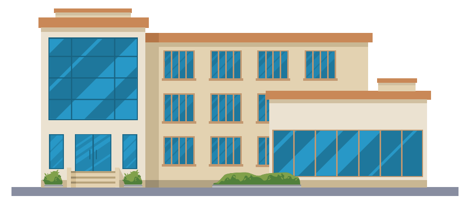
To avoid this inequity in risk, most insurers will include a **Coinsurance Clause** that imposes a penalty on a claim payment if the **insurance-to-value requirement** is not met (i.e., if the limit of insurance is not equal to at least a specified percentage of the building’s value).

Coinsurance percentages may be 80%, 90%, or 100% and apply to either the actual cash value or replacement cost of the property, depending upon the valuation used in the policy. If the insured fails to purchase a limit at or above the required percentage, then loss payment for a partial loss is reduced by the same percentage the insured underinsured their property.



The insured benefits from the coinsurance requirement in two ways:

1. It encourages the insured to adequately insure their property.
2. It lowers premiums, making purchasing more insurance more economical.



The insurance company benefits from the coinsurance requirement in three ways:

1. It provides better premium levels per risk insured.
2. It prevents the purchase of insurance for the payment of smaller losses only.
3. Knowing the true property exposures within an insurer's portfolio allows for better rate accuracy over time.

The Coinsurance Formula

The coinsurance formula is used to determine the loss payment due to the insured, but it is ONLY used when the insured is NOT in compliance with the insurance-to-value requirement. The factors used in the coinsurance formula include:

- What amount of coverage **DID** the policy carry? This is the limit of insurance shown on the Declarations.
- What amount of coverage **SHOULD** the policy have carried? This is the value of the property at the time of loss multiplied by the coinsurance percentage shown on the Declarations. This percentage may be 80%, 90%, or 100%.

$$\textbf{DID} \div \textbf{SHOULD} \ \mathbf{x} \ \text{Loss} = \text{Loss Payment (less the deductible)}$$

Consider this example of coinsurance where the policyholder is properly insured:

Building value (at time of loss)	$100,000 (A)
Coinsurance Clause	80% (B)
Insurance required (based on the Coinsurance Clause or 80% of the building's value)	$80,000 (SHOULD)
Insurance carried	$85,000 (DID)
Amount of loss	$10,000 (E)

To calculate the loss payment:

Step 1: Determine the amount of insurance required by multiplying the value of the property (A) at the time of loss by the coinsurance percentage (B). Amount of insurance required: $80,000 (SHOULD).

Step 2: Compare the amount of insurance required (SHOULD) with the amount of insurance carried (DID).

Step 3: The amount of insurance carried is in excess of the amount required, so no coinsurance penalty will apply. The policy will pay for the entire $10,000 loss, minus any deductible that may apply.

Here is an example of coinsurance where the policyholder is underinsured:

Building value (at time of loss)	$100,000 (A)
Coinsurance Clause	80% (B)
Insurance required (based on the Coinsurance Clause or 80% of the building's value)	$80,000 (SHOULD)
Insurance carried	$40,000 (DID)
Amount of loss	$10,000 (E)

To calculate the loss payment:

Step 1: Determine the amount of insurance required by multiplying the value of the property (A) at the time of loss by the coinsurance percentage (B). Amount of insurance required: $80,000 (SHOULD)

Step 2: Compare the amount of insurance required (SHOULD) with the amount of insurance carried (DID).

Step 3: Since this insured has not satisfied the insurance-to-value requirement, the coinsurance formula must be applied.

$$\frac{\textbf{DID \$40,000}}{\div\ \textbf{SHOULD \$80,000}} \ \mathbf{x}\ \$10{,}000 = \$5{,}000 \text{ (less the deductible)}$$

<u>Loss Payment:</u>

Using the coinsurance formula, we see that the loss payment would be reduced significantly.

Coinsurance may be one of the most misunderstood concepts for policyholders. A primary problem with the Coinsurance Clause is the timing of the penalty. While the policy limits are selected when the policy is written, the amount that should be carried by the policy is determined *at the time that the loss occurs*. Factors such as inflation and improvements made to the property can significantly increase the property's value during the policy period. Periodic reviews of property values and policy limits are important measures to reduce the risk of incurring a penalty.

Check-In

A business owner has a building with a replacement cost value of $1,000,000. He decides to insure it for $600,000. Assuming an 80% coinsurance requirement and a $1,000 deductible, how much would the policy pay on a $10,000 loss?

- ☐ $7,000
- ☐ $6,500
- ☐ $7,500
- ☐ $9,000

Agreed Value

During times of rapid business growth, or higher-than-expected price inflation, property values may quickly surpass the limits of coverage provided by the policy. To avoid coinsurance penalties after a loss, some insurance carriers may offer an optional coverage called *Agreed Value*. The **Agreed Value** provison is an "upfront agreement" between the insured and the insurance company on the amount of insurance for the property. The Agreed Value provision suspends the Coinsurance Clause if certain conditions are met.

To obtain coverage based on Agreed Value, the insured must submit *a Statement of Values* to the carrier at the beginning of the policy term. A **Statement of Values** is a list of the insured property that includes the value of each item expressed either in terms of its replacement cost or actual cash value.

If the carrier agrees to those stated values, then the coinsurance will be suspended for one year. To continue the Agreed Value provision into future policy periods, a new Statement of Values must be completed at the following renewal. If a Statement of Values is not submitted, the Agreed Value coverage will lapse, and the Coinsurance provision will be reinstated.

Knowledge Check

3. Brooklyn Medical Center has insured their building for $400,000 with an 80% Coinsurance Clause. However, due to rapid inflation within the construction industry, the replacement cost for this building is now valued at $1,000,000. A fire causes a $100,000 loss to the building. Disregarding any deductible, how much will Brooklyn's insurance company pay?

4. How can Brooklyn Medical Center avoid coinsurance penalties on potential future claims?

Methods of Writing Commercial Property Insurance

Learning Objective

- *Differentiate between specific, scheduled, and blanket coverage limits of insurance.*

Types of Commercial Property Limits

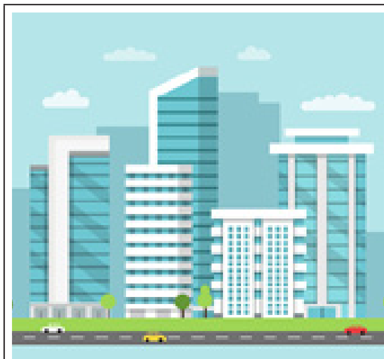
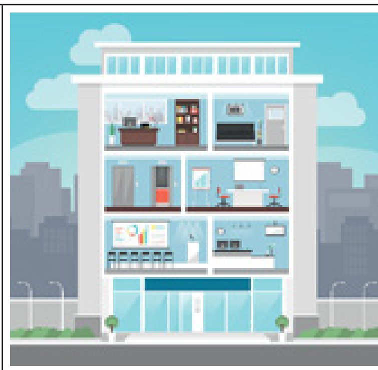
Once a business understands the different ways in which commercial property can be valued, it can better assess the options pertaining to the kind of limits it selects. Commercial property limits may be specific, scheduled, or blanket limits.

Specific Insurance

Specific insurance applies a specific limit to a building or personal property at a single location. If that property is damaged or destroyed by a covered peril, the specific limit is the most the insurer will pay to repair or replace it.

Example:

- $500,000 Building coverage at location 01
- $100,000 Business personal property (BPP) coverage at location 01

	
Building $500,000	**BPP $100,000**

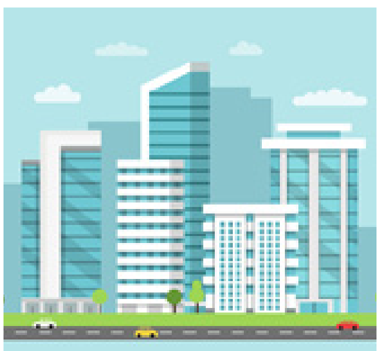
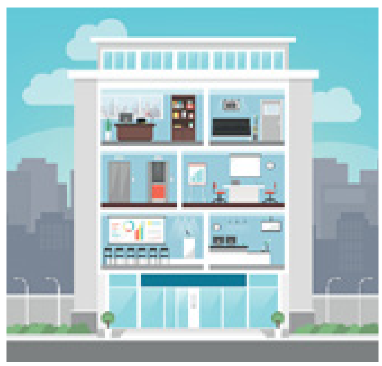
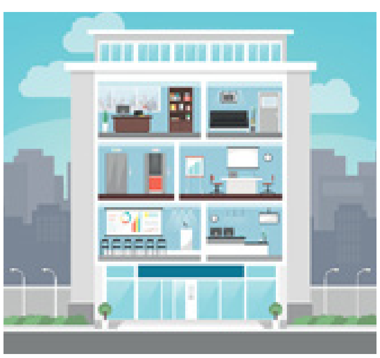
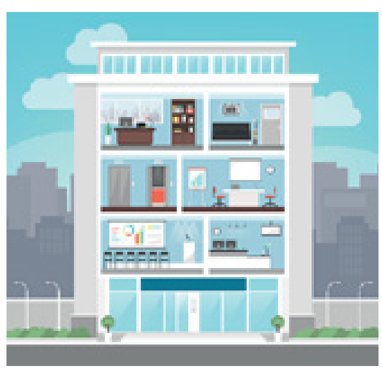
For businesses with multiple locations, writing a policy with specific limits may require several individual policies, each having their own Causes of Loss forms, conditions, and exclusions. Most organizations (and agents) may choose to consolidate all their property under one policy that covers all locations.

Scheduled Insurance

When a policy shows separate limits of insurance applied to individually listed properties, these are called scheduled limits of insurance.

Example:

- $500,000 Building coverage at location 01
- $100,000 Business personal property (BPP) coverage at location 01
- $300,000 Business personal Property (BPP) coverage at location 02
- $150,000 Business personal property (BPP) coverage at location 03

Location 1	
	
Building **$500,000**	**BPP** **$100,000**
Location 2	**Location 3**
	
BPP **$300,000**	**BPP** **$150,000**

Scheduled limits require the business owner to select a limit of insurance for each building and property type individually. As each limit represents the maximum the insurance policy will pay out per location, ensuring that the limits are adequate requires due diligence for both the agent and the policyholder. This means that the policy needs to be adjusted if the insured acquires additional property, moves personal property from one location to another, or makes significant improvements to a property during the policy term.

Specific vs. Scheduled

If multiple locations can be written and scheduled on a single policy, why bother with a standalone specific policy?

Depending on a property's various characteristics (construction type, occupancy, location, external exposures), the insurance carrier may have a different underwriting appetite for each risk.

Let's say that Acme Bar & Grill has five locations throughout the state. Of these locations, one restaurant is located on the beach in a historic building of wood frame construction. Since this location has a higher-than-average probability of loss, the carrier may not be willing to offer the same rating tier or coverage terms as they would for the other four locations.

Acme may want to find a carrier willing to offer their desired coverages for all locations, but the premium would likely be cost prohibitive. A good solution would be to write the beach location on a named perils policy with deductibles and terms that the carrier can agree to. The remaining locations would be insured on either a scheduled or blanket policy with more favorable terms.

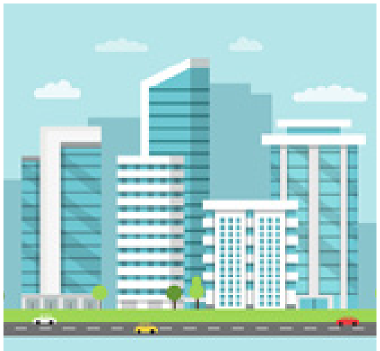
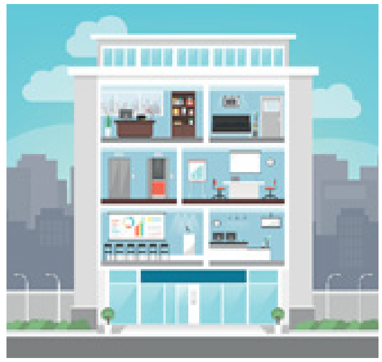
Blanket Insurance

An important consideration for organizations insuring multiple locations is blanket insurance. A blanket limit takes the value of all reported properties—which, in addition to the building and business personal property, may also include personal property of others and the tenant's improvements and betterments. This total limit is available to pay losses regardless of what property or location has suffered the loss. As a result, it is easier to manage, and it provides the policyholder more room for error when estimating the valuation of their properties. While this provides some assurance that the policyholder will have 100% insurance at each location, most carriers will require a minimum 90% Coinsurance Clause based on the total blanket limit.

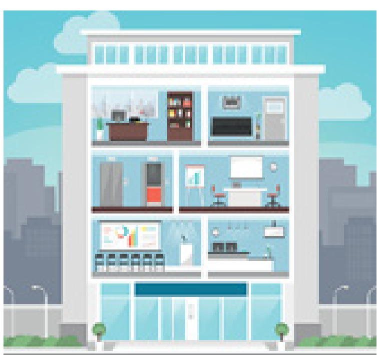
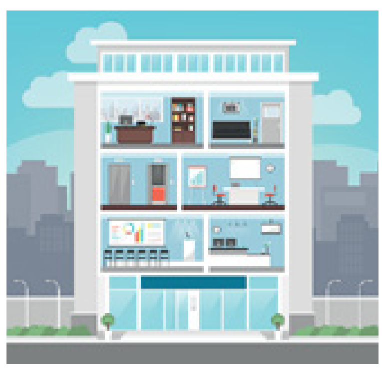
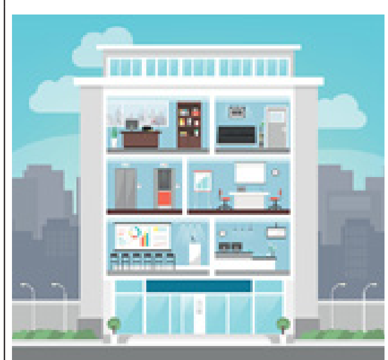
Examples:

Blanket insurance can be used to insure:

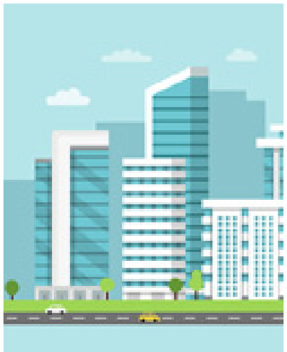
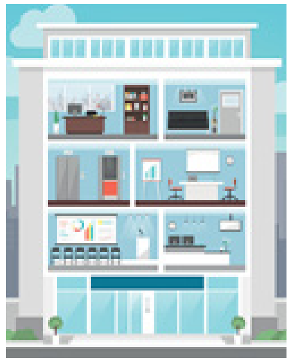
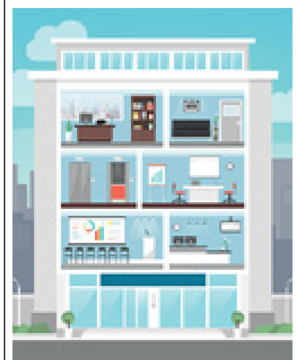
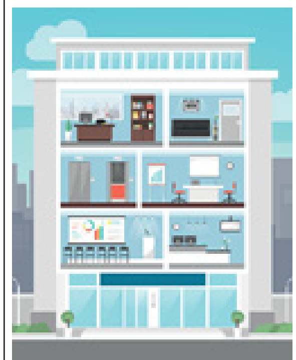
- Two or more types of property at one location

	
Building **$500,000**	**BPP** **$100,000**
Blanket Limit: $600,000 **Or at 90% Coinsurance: $540,000**	

- One type of property at more than one separately-rated building

Location 1	**Location 2**	**Location 3**
		
BPP **$100,000**	**BPP** **$300,000**	**BPP** **$150,000**
Blanket Limit: $550,000 **Or at 90% Coinsurance: $495,000**		

- Two or more types of property at multiple locations

Location 1		**Location 2**	**Location 3**
			
Building $500,000	**BPP $100,000**	**BPP $300,000**	**BPP $150,000**
Blanket Limit: $1,050,000 **Or at 90% Coinsurance: $945,000**			

Check-In

Butler Properties owns three buildings that are leased to others for retail use. What is the term for coverage that covers all of the buildings under a single limit of insurance?

- ☐ Blanket insurance
- ☐ Named perils coverage
- ☐ Specific insurance
- ☐ Scheduled insurance

Margin Clause

Just as a building is more likely to suffer a partial loss instead of a total loss, the odds of a multi-location risk incurring damages at all locations (outside of a major catastrophe) are unlikely. To discourage policyholders from intentionally undervaluing their properties, many insurance companies will attach an endorsement to the property policy: **Limitation on Loss Settlement – Blanket Insurance (Margin Clause) Endorsement (CP 12 32).**

POLICY NUMBER:

COMMERCIAL PROPERTY
CP 12 32 06 07

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

LIMITATION ON LOSS SETTLEMENT – BLANKET INSURANCE (MARGIN CLAUSE)

This endorsement modifies insurance provided under the following:

BUILDING AND PERSONAL PROPERTY COVERAGE FORM
CONDOMINIUM ASSOCIATION COVERAGE FORM
CONDOMINIUM COMMERCIAL UNIT-OWNERS COVERAGE FORM
STANDARD PROPERTY POLICY

SCHEDULE

Premises Number:		**Building Number:**		**Margin Clause:**	%
Description Of Property:					
Premises Number:		**Building Number:**		**Margin Clause:**	%
Description Of Property:					
Premises Number:		**Building Number:**		**Margin Clause:**	%
Description Of Property:					
Information required to complete this Schedule, if not shown above, will be shown in the Declarations.					

A. This endorsement applies to loss settlement on property that is subject to a Blanket Limit of Insurance.

A Blanket Limit of Insurance is a single Limit of Insurance that applies to any of the following as shown elsewhere in this policy:

1. Two or more buildings;
2. Building and contents;
3. Contents of more than one building; or
4. Contents at more than one premises.

B. Margin Clause

With respect to property that is subject to a Blanket Limit of Insurance, we will determine a maximum loss payable for each building and for the contents of each building or the contents at each premises. The maximum loss payable is determined by applying the applicable Margin Clause percentage indicated in the Schedule to the value of the property as shown in the latest statement of values reported to us. If the statement of values does not state individually the value of each building and the value of contents at each building or premises, we will determine individual values as a part of the total reported values prior to application of the Margin Clause percentage.

CP 12 32 06 07 **Page 1 of 2**

When a Margin Clause is attached to a policy, the insured is required to provide a Statement of Values outlining the property, as well as the replacement cost or actual cash value of the properties covered under their policy. The Statement of Values report is often completed during the quoting process, as it is one of the tools the insurer uses to determine premium.

Example:

Table: 1.2

CLASS CODE	LOC #	BLDG #	DESCRIPTION OF PROPERTY ADDRESS OF PROPERTY	VALU-ATION	SUBJECT	100% VALUES	RATE OR LOSS COST	PREMIUM
	1	1	ACME Headquarters 123 N. HIlls Drive Austin, TX 78759	RC	Building	$500,000		
	1	1	ACME Headquarters 123 N. Hills Drive Austn, TX 78759	RC	Contents	$100,000		
	2	1	ACME Warehouse 3300 SW Williston Road Irving, TX 75014	RC	Contents	$300,000		
	3	1	ACME Retail 600 Turkey Creek Lane Dallas, TX 75265	RC	Contents	$150,000		

The **Margin Clause** places a limitation on the payment of a loss at any one location and is represented as a percentage of the amount shown on the signed Statement of Values that was provided to the insurance company. The percentage is typically an amount over 100% (Example: 110%, 115%, or 125%).

Loss Example Using the Margin Clause

Blanket property limit (based on 90% coinsurance)	$945,000
Value of building #1 on the Statement of Values	$500,000
Margin Clause percentage	115%
Maximum amount payable for building #1	$575,000
Amount of loss to building #1	$600,000
Deductible	$2,500
(The deductible is taken from the loss, not the limit of insurance.)	
Loss payment	**$572,500**

Although blanket insurance coverage offers some level of protection against underestimating the value of a commercial property, the presence of the Margin Clause still requires the insured to be accountable for the accuracy of the values that are declared in the Statement of Values.

Knowledge Check

A business has three buildings it wants to insure for replacement cost.

Table: 1.3

	Replacement Cost at Time of Loss	Stated/Insured Value
Building #1	$500,000	$450,000
Building #2	$200,000	$180,000
Building #3	$400,000	$360,000

1. If the buildings are written on a scheduled limits basis, how much does the business receive on a claim if building #1 burns to the ground? Disregard coinsurance.

2. If the buildings are written on a blanket limits basis for a combined insured value of $990,000, how much does the business receive on a claim if building #2 burns to the ground? Disregard coinsurance.

3. If there is a Margin Clause endorsement with a 110% limit applicable on the blanket policy, with a combined insured value of $990,000, how much does the business receive if building #3 burns to the ground? Disregard coinsurance.

Fluctuating Values

Learning Objective

- *Identify ways to provide coverage for business personal property that fluctuates in value.*

Methods for Handling Fluctuations in Values

It is common for businesses to have personal property (such as inventory) with values that fluctuate widely during the year. This fluctuation can create two problems: 1) not having sufficient limits to pay for a loss when values are high; and 2) having limits that are too high during the year at times when values are low (thus over-insuring the property).

Solutions to this problem include:

- Blanket Insurance
- Peak Season Endorsement
- Value Reporting Form

Blanket Insurance

When personal property coverage exists for multiple locations, blanket limits may be used to provide coverage in excess of the values necessary when the policy was first issued. Margin Clauses attached to blanket limit policies could limit the coverage that could be provided at a particular location.

When blanket limits are not available, certain endorsements can be used to address value fluctuations of property at a single location.

Peak Season Limit of Insurance (CP 12 30) Endorsement

The Peak Season endorsement automatically increases the limit for the insured's business personal property for a specified period(s) of time to ensure appropriate coverage. The endorsement allows for the identification of the property needing additional coverage, showing the beginning and ending date of the increase in the property values, and scheduling of that property with a specific amount of insurance that is added to the limit shown on the Declarations. Multiple time periods may be applied if necessary.

POLICY NUMBER: COMMERCIAL PROPERTY
CP 12 30 06 95

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

PEAK SEASON LIMIT OF INSURANCE

This endorsement modifies insurance provided under the following:

BUILDING AND PERSONAL PROPERTY COVERAGE FORM
CONDOMINIUM COMMERCIAL UNIT-OWNERS COVERAGE FORM
STANDARD PROPERTY POLICY

SCHEDULE*

Prem. No.	Bldg. No.	Covered Property	Peak Season Additional Limit of Insurance	Period From	Period To

The Limit of Insurance on covered personal property is increased to include the amount shown in the Schedule:

A. At the described location(s); and

B. Only from 12:01 A.M. Standard Time of the first day to 12:01 A.M. Standard Time of the last day of the applicable period(s) shown in the Schedule.

* Information required to complete this Schedule, if not shown on this endorsement, will be shown in the Declarations.

CP 12 30 06 95 Page 1 of 1 ☐

The effectiveness of the Peak Season endorsement lies in the adequacy of the additional amount of insurance chosen for the time period. Outside of the specified time periods, the limits of insurance return to those shown in the Declarations.

Florist shops and toy stores are two examples of types of businesses that can benefit from a Peak Season endorsement. They have set times of year when their inventories grow dramatically and then drop to much lower levels. If inventory fluctuations can be predicted based on a time span and amount, then a Peak Season endorsement would be a good choice. The endorsement requires that you identify the covered property, the additional limit of insurance, and the time period for which the additional limit will apply. The same causes of loss apply.

Value Reporting Form (CP 13 10) Endorsement

The Value Reporting Form endorsement is intended for insureds whose personal property values fluctuate in both time and amount. It can be used for merchandise, stock, and other personal property of the insured, as well as personal property of others in the insured's care.

POLICY NUMBER:

COMMERCIAL PROPERTY
CP 13 10 04 02

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

VALUE REPORTING FORM

This endorsement modifies insurance provided under the following:

BUILDING AND PERSONAL PROPERTY COVERAGE FORM
CONDOMINIUM COMMERCIAL UNIT-OWNERS COVERAGE FORM
STANDARD PROPERTY POLICY

One or more of the following symbols will be shown in the Declarations in place of a Coinsurance percentage: DR, WR, MR, QR, PR. For an explanation of these symbols, refer to "Reporting Period" under Section **D.** – Definitions.

A. Additional Covered Property

1. Covered Property is extended to include personal property at the following types of locations for which a Limit of Insurance is shown in the Declarations or on the Reported – Acquired – Incidental Locations Schedule:

a. "Reported locations";

b. "Acquired locations"; and

c. "Incidental locations".

2. The following is added to Property Not Covered:

Covered Property does not include property at fairs or exhibitions.

B. Reporting Provisions

For Covered Property to which this endorsement applies:

1. Reports Of Values

a. You must file a report with us following each "reporting period" and at expiration, in accordance with **b.** or **c.** below, showing the values of Covered Property separately at each location. Each report must show the values that existed on the dates required by the "reporting period"; these dates are the report dates.

b. If this policy is a renewal of a value reporting form policy we previously issued, you must file a report with us within 30 days of the end of each "reporting period" and at expiration.

c. If coverage was not previously issued by us on a value reporting form basis and:

(1) Reporting Period symbol DR (Daily), WR (Weekly) or MR (Monthly) is shown in the Declarations, you must:

(a) File the first report with us within 60 days of the end of the first "reporting period"; and

(b) File the second report with us within 30 days of the end of the second "reporting period", concurrent with submission of the first report; and

(c) File each subsequent report with us within 30 days of the end of each subsequent "reporting period" and at expiration.

(2) Reporting Period symbol QR (Quarterly) is shown in the Declarations and the inception date of the policy falls in March, June, September or December, you must:

(a) File the first report with us within 60 days of the end of the first "reporting period"; and

(b) File each subsequent report with us within 30 days of the end of each subsequent "reporting period" and at expiration.

(3) Reporting Period symbol QR (Quarterly) is shown in the Declarations and the inception date of the policy does **not** fall in March, June, September or December, you must file a report with us within 30 days of the end of each "reporting period" and at expiration.

(4) Reporting Period symbol PR (Policy Year) is shown in the Declarations, you must file a report with us within 30 days of the end of each "reporting period" and at expiration.

d. For property at "incidental locations", your reports must show separately the entire values in each state.

CP 13 10 04 02 © ISO Properties, Inc., 2001 **Page 1 of 4** ☐

When using a Value Reporting Form endorsement, the insured sets an initial policy limit on the Declarations page that reflects the year's highest projected values. This is the limit that should be shown on the policy Declarations page at the start of the policy year. The insured then pays an advance premium based on 75% of the chosen policy limit. This "deposit" is called the **provisional premium.** The insured then submits periodic reports stating the amount of actual values at hand.

The reporting frequency will be indicated on the policy Declarations by one of the following Value Reporting Symbols:

DR	**Daily:** values are computed daily and are reported to the insurance company monthly
WR	**Weekly:** values are computed weekly and are reported to the company monthly
MR	**Monthly:** the most common reporting option selected
QR	**Quarterly**
PR	**Policy year** *Note: Many companies will not offer this option.*

At the end of the policy year, the insurer averages the reports to determine the final premium based on the average amount of risk. This final premium is applied to the provisional premium. Depending on the result, the insured is then reimbursed the balance of the provisional premium or is billed for the additional premium.

The insured pays only for what was at risk, and the insurer receives a premium that matches the insured's exposure.

The insured is responsible for:

- Submitting timely periodic reports to the insurer.
- Providing the insurer with honest and accurate reports.
- Submitting reports within 30 days of the end of each reporting period.

  (EXCEPTION: The insured has 60 days to submit the first report of a new policy.)

Knowledge Check

Buddy's Toy Emporium maintains a consistent level of inventory of toys year-round, except for the months of September through December, when the inventory values double. What would be the best method of providing insurance coverage for the four months of increased inventory values?

Value Reporting Form Penalty Provisions

Learning Objective

- *Calculate the amounts payable under the Value Reporting Form penalty provisions.*

As long as the insured makes timely and accurate reports, the policy limit is available to pay losses throughout the term of the policy. It is important to note that the policy may be subject to certain penalties if the insured does not adequately meet their reporting obligations.

Full Reporting Provision

Under the Value Reporting Form endorsement, the Coinsurance condition is replaced with the following clause:

2. Full Reporting

The **Coinsurance** Additional Condition is replaced by the following:

COINSURANCE

a. If your report of values for a location where loss or damage occurs, for the last "reporting period" before loss or damage, shows less than the full value of the Covered Property at that location on the report dates, we will pay only a proportion of the loss. The proportion of loss payable, prior to application of the deductible, will not be greater than the proportion determined by:

(1) The values you reported for the location where the loss or damage occurred, divided by

(2) The value of the Covered Property at that location on the report dates.

b. For locations you acquire after the last report of values, we will not pay a greater proportion of loss, prior to the application of the deductible, than the proportion determined by:

(1) The values you reported for all locations, divided by

(2) The value of the Covered Property at all locations on the report dates.

This clause reinforces the importance of accurate reporting by the insured. If the insured fails to report accurately and timely, the loss payment is reduced. The policy will pay only a percentage based on what the insured reported.

Loss Example: Incorrect Values Reported

Joe's CD Land incurs a $10,000 loss. Joe reported $80,000 of inventory when, in fact, the business had $100,000 on hand on the date of the Value Reporting Form. The policy says to:

1. Divide the amount reported by the actual amount on hand (or what Joe should have reported), then;

2. Multiply the loss by the percentage derived in Step 1.

To calculate the loss payment for Joe's CD Land:

Step 1: $80,000/$100,000 = 80%

Step 2: 80% x $10,000 = $8,000 will be paid.

Reports in Excess of Limit of Insurance

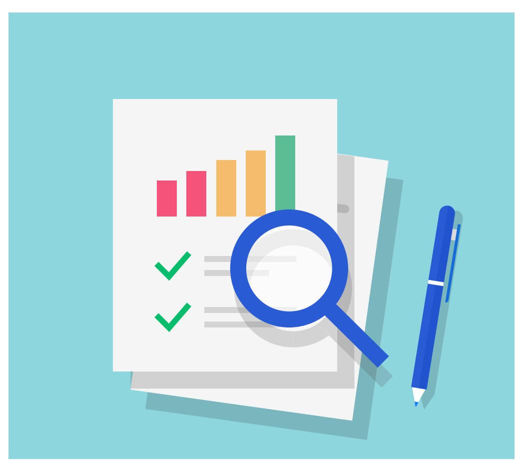
The most the policy will pay is the amount stated on the Declarations, even if the insured accurately reports a higher amount. Although the insured will not collect more than the policy limit, the total amount reported will be included in the final premium calculation.

Tip: If an insured does report an amount higher than the limit, endorse the policy immediately to reflect the higher amount of coverage.

Late Reporting

The penalties for late reports are handled in two ways:

1. **No report:** If the insured never makes a report (or if the first report is delinquent), the policy will pay 75% of the amount that otherwise would have been paid. This percentage may vary by state.
2. **Stops reporting:** If the insured makes the first report and then stops making reports at some point in the policy year, the policy will pay no more than the amount reported on the insured's last report.



Value Reporting Penalties

Let's take Joe's CD Land, again. Joe makes accurate and timely reports for six months, after which he stops reporting. The last value reported was $60,000. If Joe's CD Land then suffers a loss, the most the policy will pay is $60,000, even if the loss exceeds that amount. The table below reviews four situations that could arise and the consequences to the insured should a loss occur. Please note that the limit of insurance in this example is $100,000, and anything paid to the insured is calculated at the time of loss.

Table: 1.4

Under Report	Excess Report	Failure to submit first report	Failure to submit subsequent reports
Insurer pays the percentage reported	Insurer pays the policy limit	Insurer pays 75% of amount that otherwise would have been paid	Insurer pays the last reported value
Example Limit of insurance: $100,000	**Example** Limit of insurance: $100,000	**Example** Limit of insurance: $100,000	**Example** Limit of insurance: $100,000
Reported: $40,000	Reported: $125,000	No report	Last reported value: $82,000
Actual value at the time of the report: $80,000	Actual value at the time of the report: $80,000	Actual value at the time of the report: $80,000	Actual value at the time of the report: $80,000
Loss: $60,000	Loss: $125,000	Loss: $80,000	Loss: $100,000
Policy pays: ($40,000 ÷ $80,000) X $60,000 = $30,000	Policy pays $100,000	Policy pays: $60,000 (75% of $80,000)	Policy pays: $82,000

A Value Reporting Form is an important coverage consideration for businesses with irregular inventory that fluctuates throughout the year. Some businesses may use this endorsement specifically for stock that is meant to be sold and apply separate limits for items such as computers, desks, equipment, and other business property, which remains relatively static.

By submitting the Value Reporting Form on a regular basis, the policyholder can avoid the extra costs associated with being overinsured while reducing the risks associated with being underinsured.

Knowledge Check

Directions: Calculate the amounts of loss paid by a policy written with a Value Reporting Form. Assume a $100,000 limit on the Declarations.

Under-reporting

Reported values: $40,000

Actual values $80,000

Loss amount: $60,000

Amount of loss paid: ________________

Excess reporting

Reported values: $125,000

Loss: $125,000

Amount of loss paid: ________________

Failure to submit first report

Loss: $80,000

Amount of loss paid: ________________

Failure to submit subsequent reports

Last reported value: $82,000

Loss: $100,000

Amount of loss paid: ______________________

Components of the Commercial Package Policy (CPP)

Now that you understand the various methods of writing property insurance, we are going to take a look at the components of the Commercial Package Policy. The Commercial Package Policy is a contract made up of a variety of parts. It is built in a modular format to allow it to be combined with other forms in a mix-and-match way to make a complete contract. This policy can combine other commercial insurance coverages—called coverage parts—commonly needed by commercial organizations, such as Commercial Property, Commercial General Liability, or Commercial Crime. Although the Commercial Property Coverage Part can be combined with other coverage parts, it also can stand alone.

Table: 1.5

Components of the Commercial Package Policy

Coverage Parts

Commercial Property Coverage Part Declarations	Commercial Property Coverage Form	Commercial Property Condition Form	Causes of Loss Form
Commercial General Liability Coverage Part	Commercial General Liability Declarations	Commercial General Liability Coverage Form (Includes Conditions)	
Commercial Crime Coverage (Includes Conditions) Declarations		Commercial Crime Coverage Form	
Inland Marine Coverage Part	Inland Marine Declarations	Inland Marine Coverage Form	Inland Marine Condition Form
Equipment Breakdown Protection Coverage Part Declarations		Equipment Breakdown Protection Coverage Form	

\+ **Common Policy Conditions**

\+ **Common Policy Declarations**

= **Commercial Package Policy**

Structure of the Commercial Property Policy

A Commercial Property Policy has a page of Common Policy Declarations that shows the Property Coverage Part as well as the other coverage parts that are a part of the package. But again, it might only show the one coverage part if that is all there is. Similarly, there are also Common Policy Conditions that apply. They would apply whether there is only one coverage part, such as Property, or if there are many.

Common Policy Declarations

Think of the Common Policy Declarations as a summary—or cover sheet—for the policy. It lists the most pertinent information in summary format, allowing a quick review of the important details:

- **Named Insured:** The "Named Insured" is the person or organization being insured in the policy.
- **Policy Period:** The "Policy Period" lists the time span the coverage is in effect. Note that all policies begin at 12:01 A.M. standard time at the insured's mailing address.
- **Business Description:** The "Business Description" requires a description of the insured's business.
- **Coverage Parts:** The policy will contain only those "Coverage Parts" that are indicated by a premium charge.

POLICY NUMBER:

IL DS 00 09 08

COMMON POLICY DECLARATIONS

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.

	PREMIUM
CAPITAL ASSETS PROGRAM (OUTPUT POLICY) COVERAGE PART	$ ____________
COMMERCIAL AUTOMOBILE COVERAGE PART	$ ____________
COMMERCIAL GENERAL LIABILITY COVERAGE PART	$ ____________
COMMERCIAL INLAND MARINE COVERAGE PART	$ ____________
COMMERCIAL LIABILITY UMBRELLA	$ ____________
COMMERCIAL PROPERTY COVERAGE PART	$ ____________
CRIME AND FIDELITY COVERAGE PART	$ ____________
EMPLOYMENT-RELATED PRACTICES LIABILITY COVERAGE PART	$ ____________
EQUIPMENT BREAKDOWN COVERAGE PART	$ ____________
FARM COVERAGE PART	$ ____________
LIQUOR LIABILITY COVERAGE PART	$ ____________
MEDICAL PROFESSIONAL LIABILITY COVERAGE PART	$ ____________
POLLUTION LIABILITY COVERAGE PART	$ ____________
______________________________	$ ____________
TOTAL:	$ ____________

Premium shown is payable: $__________ at inception. $ __________

IL DS 00 09 08 © ISO Properties, Inc., 2007 **Page 1 of 2** ☐

Common Policy Conditions

Common Policy Conditions are the general provisions that govern all insurance policies. It may be helpful to think of conditions as rules. The standard ISO Common Policy Conditions include:

1. **Cancellation**

   The cancellation provision explains the conditions under which a policy may be canceled.

   - Ten days: notice of cancellation for nonpayment of premium.
   - Thirty days: notice of cancellation for other reasons.

   Every state has regulations regarding the cancellation of insurance policies, and there are corresponding state amendatory endorsements that change this condition.

2. **Changes**

   Only the first Named Insured has the right to request changes to the policy. The insurance company must agree and then endorse the policy.

3. **Examination of Books and Records**

   The insurance company may review a company's books and records for up to three years after the policy period.

4. **Inspection and Surveys**

   The insurance company has the right to inspect the covered premises. However, that inspection is for insurability and does not guarantee that the premises are safe, healthful, or comply with an organization's or government's standards.

5. **Premiums**

   The first Named Insured is responsible for paying premiums. The first named insured also receives premium refunds due.

6. **Transfer of Rights and Duties under this policy**

   The Named Insured may not transfer rights or duties contained in the policy except in the event of death, and then only to the named legal representative. Note that until the legal representative is appointed, anyone having proper temporary custody of the insured's property has the insured's rights and duties. Essentially, if the insured were to sell their business to another party, they cannot sell their insurance policy.

IL 00 17 11 98

COMMON POLICY CONDITIONS

All Coverage Parts included in this policy are subject to the following conditions.

A. Cancellation

1. The first Named Insured shown in the Declarations may cancel this policy by mailing or delivering to us advance written notice of cancellation.

2. We may cancel this policy by mailing or delivering to the first Named Insured written notice of cancellation at least:

a. 10 days before the effective date of cancellation if we cancel for nonpayment of premium; or

b. 30 days before the effective date of cancellation if we cancel for any other reason.

3. We will mail or deliver our notice to the first Named Insured's last mailing address known to us.

4. Notice of cancellation will state the effective date of cancellation. The policy period will end on that date.

5. If this policy is cancelled, we will send the first Named Insured any premium refund due. If we cancel, the refund will be pro rata. If the first Named Insured cancels, the refund may be less than pro rata. The cancellation will be effective even if we have not made or offered a refund.

6. If notice is mailed, proof of mailing will be sufficient proof of notice.

B. Changes

This policy contains all the agreements between you and us concerning the insurance afforded. The first Named Insured shown in the Declarations is authorized to make changes in the terms of this policy with our consent. This policy's terms can be amended or waived only by endorsement issued by us and made a part of this policy.

C. Examination Of Your Books And Records

We may examine and audit your books and records as they relate to this policy at any time during the policy period and up to three years afterward.

D. Inspections And Surveys

1. We have the right to:

a. Make inspections and surveys at any time;

b. Give you reports on the conditions we find; and

c. Recommend changes.

2. We are not obligated to make any inspections, surveys, reports or recommendations and any such actions we do undertake relate only to insurability and the premiums to be charged. We do not make safety inspections. We do not undertake to perform the duty of any person or organization to provide for the health or safety of workers or the public. And we do not warrant that conditions:

a. Are safe or healthful; or

b. Comply with laws, regulations, codes or standards.

3. Paragraphs **1.** and **2.** of this condition apply not only to us, but also to any rating, advisory, rate service or similar organization which makes insurance inspections, surveys, reports or recommendations.

4. Paragraph **2.** of this condition does not apply to any inspections, surveys, reports or recommendations we may make relative to certification, under state or municipal statutes, ordinances or regulations, of boilers, pressure vessels or elevators.

E. Premiums

The first Named Insured shown in the Declarations:

1. Is responsible for the payment of all premiums; and

2. Will be the payee for any return premiums we pay.

F. Transfer Of Your Rights And Duties Under This Policy

Your rights and duties under this policy may not be transferred without our written consent except in the case of death of an individual named insured.

If you die, your rights and duties will be transferred to your legal representative but only while acting within the scope of duties as your legal representative. Until your legal representative is appointed, anyone having proper temporary custody of your property will have your rights and duties but only with respect to that property.

IL 00 17 11 98 Page 1 of 1

Check-In

Which of the following best describes the structure of a Commercial Package Policy?

- ☐ Several different insurance policies built into a single contract
- ☐ A modular system of adding different insurance coverages into one policy
- ☐ A way of writing a single insurance contract or multiple insurance contracts
- ☐ All of the above

Conditions

Learning Objectives

- *Identify the rights and responsibilities of the first Named Insured.*
- *List the Commercial Property Conditions that apply under Commercial Property Conditions (CP 00 90), with particular attention to Transfer Of Your Rights Of Recovery To Us.*

Within the Common Policy Conditions are important rules that apply to the first Named Insured. (The **first Named Insured** is the name of the first person or organization shown on the Declarations.)

Rights and responsibilities of the first Named Insured include:

- Cancellation is only allowed by the first Named Insured.
  The company will not recognize any other person or organization making a cancellation request except an estate of a deceased insured under different rules that may vary by state.
- The insurance company is obligated to only notify the first Named Insured should it decide to cancel the policy.
- The first Named Insured receives any premium refund should the policy be canceled.
- The insurance company will only accept policy change requests from the first Named Insured.
- The first Named Insured is responsible for the payment of premiums due.
- The first Named Insured is the only one who receives premium refunds due to any policy changes.

Knowledge Check

An insurance agent decides he does not want to continue serving a particular commercial customer and asks the insurance company to cancel this customer's policy. How should the insurance company respond to this request?

Beyond the Common Policy Declarations and the Common Policy Conditions, the policy branches into the various coverage parts, such as Property, General Liability, or Crime. Each has its own sets of forms that make it a complete coverage part.

Commercial Property Coverage Part Declarations

The Declarations of the Commercial Property Coverage Part identifies the key features of the coverage part, identifying the *who*, *where*, *how much*, and the *options available*. The Commercial Property Coverage Part Declarations outlines the following:

- Named insured
- Premises insured – the address and description
- Coverages provided
- Limits for each coverage
- Causes of loss that apply to the coverages
- Coinsurance that applies to the coverages
- Options that are selected
  - Agreed Value
  - Inflation Guard
  - Replacement Cost
  - Extension of Replacement Cost to Personal Property of Others
- Mortgageholders that apply
- Deductibles that apply
- Forms that apply to property coverage

Commercial Property Conditions

There are nine key conditions in the policy that apply specifically to the Commercial Property Coverage Part of the policy.

1. **Concealment, Misrepresentation, or Fraud**

   This condition allows the insurance company to void the contract if any insured intentionally conceals or misrepresents a material fact regarding coverage, the covered property, or a claim.

2. **Control of Property**

   This condition clarifies that an act by a person NOT under the Named Insured's direction or control will not affect the insurance. If a breach of a policy condition occurs at a different location than the loss, the location of the loss will not be affected.

3. **Insurance Under Two or More Coverages**

   This condition states that if there is coverage under more than one section of the policy, only one payment for the loss will be made.

4. **Legal Action Against Us**

   This condition clarifies that in order for the insured to bring legal action against the insurance company, the insured must be in compliance with the policy conditions and the action must be brought within two years of the date of the loss.

5. **Liberalization**

   This condition extends the broadened features of a revised policy edition that becomes effective during the policy period to persons who are already insured under the issued version of the policy. There must be no additional premium attributable to the broadened features in order for this provision to apply.

6. **No Benefit to Bailee**

   This condition clarifies that if the insured's property is damaged while in the custody of a bailee, the policy protects the insured, not the bailee.

7. **Other Insurance**

   This condition states that if there is other insurance on the property with another insurance company, the policy will only pay its proportional share of the covered loss. If the other insurance is primary, this policy will only pay for the amount of covered loss or damage in excess of the amount due from the other company, but not more than the limit that applies.

8. **Policy Period, Coverage Territory**

   This condition outlines that any covered loss or damage must occur within the policy period shown in the Declarations. It also defines the coverage territory as the U.S., including its territories and possessions, Puerto Rico, and Canada.

9. **Transfer of Rights of Recovery Against Others to Us (Subrogation)**

   This condition states that once the insurance company has paid an insured loss, it has the right to recover money from another party that might have caused the loss.

   The insured may waive its rights against another party in writing if it is done prior to the loss. After a loss, subrogation may only be waived if the other party is:

   - an insured
   - a business owned or controlled by the insured
   - a business that owns or controls the Named Insured
   - a Named Insured's tenant

Knowledge Check

Lisa, a building owner, leases office space to her tenant, Marie, who accidentally starts a fire that spreads to other parts of the building. After the loss, Lisa sends a letter to Marie promising not to hold her responsible for the damage. Has Lisa, as the owner, violated the Commercial Property Conditions?

____

____

____

Summary

From an insurance standpoint, commercial property forms insure two types of property: real property and personal property. Land is not covered by these commercial property forms. In order to insure any type of property, an entity must have an insurable interest, which is a legal principle that describes when an individual or organization has a financial stake in the property being insured. Those with insurable interest could include the owner of the property, a mortgage or lienholder, a lessee, a tenant, or anyone who has contractual rights to the property.

Property values are indicated on the policy when coverage is written but determined by the adjuster at the time of loss. There are many ways property can be valued. Property can have a book value or a market value, but the valuation techniques most applicable to property insurance include:

- Actual cash value
- Replacement cost
- Functional replacement cost
- Selling price (for stock sold but not delivered)
- Value of tenant's improvements and betterments

The Commercial Property Policy has a coinsurance requirement where the insurer stipulates that the insured must carry an amount of insurance equal to a specified percentage of the value of the property. If the insured fails to purchase a limit at or above the required percentage, then loss payment for partial losses is reduced by the same percentage that the insured underinsured their property. Policyholders can waive a Coinsurance clause by writing an Agreed Value policy. Agreed Value is an "upfront agreement" between the insured and the insurance company on the fixed value of the property of the insured. Agreed Value suspends the Coinsurance clause as long as certain conditions are met.

When determining what limits should apply to a Commercial Property Policy, the business can opt to write specific limits, scheduled limits, or blanket limits. These are summarized in the chart below.

Table: 1.6

Type of Policy	Number of Locations	Description
Specific Limits	Single	Insurance is written at one location. A fixed amount of insurance applies separately to each type of property insured.
Scheduled Limits	Multiple	Property is written at multiple locations with a limit pertaining to each individual location and property type.
Blanket Insurance	Single or Multiple	One limit of insurance applies to two or more insured items and will pay losses regardless or what property or location is involved.

It is common for businesses to have personal property values (such as inventory) that fluctuate widely during the year. While blanket insurance may be a solution to avoid underinsurance at one location, other endorsements that allow the insured to have adequate limits include the Peak Season endorsement and the Value Reporting Form.

Depending on the needs of the insured, the Commercial Property Policy can be written as a standalone contract or as part of a broader Commercial Package Policy (CPP) that may include other lines of business, such as General Liability, Crime, and Inland Marine. The glue that holds all the coverage parts together is the Common Policy Declarations and the Common Policy Conditions. Common Policy Conditions are the general provisions (rules) that govern all components of the CPP. Many of these rules are directed to the first Named Insured, who also possesses rights, privileges, and responsibilities that are of extraordinary importance.

Resources

Important concepts related to the Learning Objectives in this section are summarized in separate videos. Online participants can use the links to access the videos. Classroom learners can access the videos at RiskEducation.org/IPresources.

▶	Types of Commercial Property
▶	Insurable Interest
▶	Valuation Methods
▶	Coinsurance
▶	Fluctuating Property Values
▶	Blanket Insurance

Section 1 Self-Quiz:

Directions: Match the term on the left to the correct definition or example on the right.

______ Real property

______ Personal property

______ Insurable interest

______ Direct losses

______ Indirect losses

______ Actual cash value

______ Replacement cost

______ Functional replacement cost

______ Specific insurance

______ Scheduled insurance

______ Blanket insurance

A. Describes when parties have a financial stake in a property; includes owners, mortgageholders, and tenants

B. Financial consequences resulting in damage to or destruction of property (i.e., the cost of relocating after a fire destroys a building)

C. A valuation method that does not consider depreciation, but instead finds the cost (in current dollars) to replace property with an item of similar quality

D. Property that is affixed to the land or real estate (i.e., building, structures, light fixtures, window blinds)

E. A valuation method which finds the cost to buy or rebuild property that serves the same purpose as the original property

F. Encompasses the value of all reported properties to determine one limit which is available to pay losses, regardless of what property or location has suffered the loss; may contain a Margin Clause

G. Actual damage to tangible property (i.e., a fire damaging a building)

H. A business owner selects a limit of insurance for each building and property type, individually, and this is the maximum that the insurance policy will pay out per location

I. The traditional valuation method for insurance companies that involves finding the cost to replace property and then subtracting the depreciation

J. Property that is not affixed to the real estate and/or can be physically moved (i.e., office supplies and furniture, or others' property in the custody, care, or control of a business)

K. An exact limit applies to a building or personal property at a single location; the most that the insurer will pay to repair or replace it

Directions: Read each statement and indicate whether it is true or false.

1. The coinsurance formula is always used to determine loss payments, regardless of whether the insured was in compliance with the insurance-to-value requirement.

   True **False**

2. A business owner suffered a loss of $10,000 to a building worth $100,000 at the time of the loss. Her insurance policy had a 90% Coinsurance clause, and she carried $45,000 of coverage. Using the coinsurance formula, the insured would receive a loss payment of $5,000.

   True **False**

3. To maintain coverage based on an agreed value, the insured only needs to submit a Statement of Values once, at the time the policy is first purchased.

   True **False**

4. One benefit of using agreed value is that it suspends the Coinsurance clause.

   True **False**

5. A Peak Season endorsement (CP 12 30) automatically increases the insured's personal property limits for a specific period of time to ensure appropriate limits.

   True **False**

6. A Value Reporting Form endorsement (CP 13 10) is intended for insureds with personal property values that remain consistent with respect to time and amount.

   True **False**

7. A business owner has a policy with a Value Reporting Form endorsement. After experiencing a loss, he fails to submit his first report. The insurance company will now pay 75% of the amount that would have otherwise been paid.

   True **False**

8. After suffering a loss, a business owner with a Value Reporting Form endorsement under-reports the value of the location in which the loss occurred. The insurer will pay the claim, in full, up to the policy limit.

   True **False**

Directions: For each of the following questions, **check all correct answers.**

1. Which of the following are common to all commercial property policies?
   - ☐ Declarations
   - ☐ Conditions
   - ☐ Value Reporting Form
   - ☐ Statement of Values

2. Which of the following are included among the rights and responsibilities of the first Named Insured?
   - ☐ The first Named Insured can designate a party responsible for making policy changes.
   - ☐ Only the first Named Insured can cancel or request changes to the policy.
   - ☐ The first Named Insured must be notified prior to cancellation of the policy by the insurer.
   - ☐ The first Named Insured has the right to declare another party responsible for paying policy premiums.
   - ☐ Only the first Named Insured can receive premium refunds upon cancellation of the policy or policy changes.

3. Which of the following are included among the nine Commercial Property Conditions?
   - ☐ The insurance company can void the contract if the insured commits concealment, misrepresentation, or fraud regarding coverage, the covered property, or a claim.
   - ☐ An act by a person not under the Named Insured's direction or control will not affect the insurance.
   - ☐ If there is coverage under two or more sections of the policy, the insured can receive multiple payments for the same loss.
   - ☐ To bring legal action against the insurance company, the insured must be in compliance with the policy conditions and the action must be brought within two years of the date of the loss.
   - ☐ If an insured's property is damaged while in the care of a bailee, the bailee is entitled to insurance benefits.

Section 2: The Building And Personal Property Coverage Form

Section Goal

In this section, you will examine the provisions of the Building And Personal Property Coverage Form (CP 00 10) to understand the specific property that is covered.

Learning Objectives

- *Identify the types of property covered and not covered by the Building And Personal Property Coverage Form.*
- *Describe the Additional Coverages and Coverage Extensions provided by the Building And Personal Property Coverage Form.*
- *Explain how vacancy affects coverage and loss payment under the Building And Personal Property Coverage Form.*
- *Define the rights of mortgageholders as provided in commercial property coverage forms.*
- *Describe the optional coverages that may be "activated" from the Declarations of the Building And Personal Property Coverage Form.*

Introduction to the Building And Personal Property Coverage Form

Providing insurance coverage for real and business personal property is critical for any commercial operation. Any business may have a majority of its assets and resources committed to tangible property, regardless of its size. The Insurance Services Office (ISO) Commercial Property Policy may be written as part of a larger commercial package which includes liability and other important lines of business, or it may be written as a single coverage part. Regardless of how the policy is written, a complete policy contains the following elements:

- **Declarations –** This information tells you who is covered, the amount of insurance, the type of coverages written, and other identifying details about the business. The ISO Commercial Package Policy (CPP) will include both a Common Policy Declarations and a Commercial Property Declarations.
- **Conditions –** Both the Common Policy Conditions and the Commercial Property Conditions outline the provisions that control how the policy operates, such as the customer's duties when a loss occurs, the method used for settling a loss, or what steps to take when the customer and the insurer disagree over the amount of a loss.
- **Coverage Forms –** These forms include descriptions of the type of property that is covered or excluded. Available coverage forms include:
  - The Building And Personal Property Coverage Form (CP 00 10)
  - Condominium Commercial Unit-Owners Coverage Form (CP 00 18)
  - Builders Risk Coverage Form (CP 00 20)
  - Mortgageholders Errors & Omissions Coverage Form (CP 00 70)
- **Causes of Loss Forms –** These forms define the covered perils to which the insurance applies.
- **Endorsements –** These forms modify the basic commercial property program to either add, delete, or exclude certain types of coverage.

The Building And Personal Property Coverage Form (CP 00 10) is the most commonly used coverage form to insure commercial buildings and their contents. In this section, we will examine the most important aspects of this form by identifying the types of property covered and not covered; describing the Additional Coverages and Coverage Extensions provided by the form; and explaining how vacancy affects coverage and loss payment.

COMMERCIAL PROPERTY
CP 00 10 10 12

BUILDING AND PERSONAL PROPERTY COVERAGE FORM

Various provisions in this policy restrict coverage. Read the entire policy carefully to determine rights, duties and what is and is not covered.

Throughout this policy, the words "you" and "your" refer to the Named Insured shown in the Declarations. The words "we", "us" and "our" refer to the company providing this insurance.

Other words and phrases that appear in quotation marks have special meaning. Refer to Section **H.** Definitions.

A. Coverage

We will pay for direct physical loss of or damage to Covered Property at the premises described in the Declarations caused by or resulting from any Covered Cause of Loss.

1. Covered Property

Covered Property, as used in this Coverage Part, means the type of property described in this section, **A.1.**, and limited in **A.2.** Property Not Covered, if a Limit Of Insurance is shown in the Declarations for that type of property.

a. Building, meaning the building or structure described in the Declarations, including:

(1) Completed additions;

(2) Fixtures, including outdoor fixtures;

(3) Permanently installed:

(a) Machinery; and

(b) Equipment;

(4) Personal property owned by you that is used to maintain or service the building or structure or its premises, including:

(a) Fire-extinguishing equipment;

(b) Outdoor furniture;

(c) Floor coverings; and

(d) Appliances used for refrigerating, ventilating, cooking, dishwashing or laundering;

(5) If not covered by other insurance:

(a) Additions under construction, alterations and repairs to the building or structure;

(b) Materials, equipment, supplies and temporary structures, on or within 100 feet of the described premises, used for making additions, alterations or repairs to the building or structure.

b. Your Business Personal Property consists of the following property located in or on the building or structure described in the Declarations or in the open (or in a vehicle) within 100 feet of the building or structure or within 100 feet of the premises described in the Declarations, whichever distance is greater:

(1) Furniture and fixtures;

(2) Machinery and equipment;

(3) "Stock";

(4) All other personal property owned by you and used in your business;

(5) Labor, materials or services furnished or arranged by you on personal property of others;

(6) Your use interest as tenant in improvements and betterments. Improvements and betterments are fixtures, alterations, installations or additions:

(a) Made a part of the building or structure you occupy but do not own; and

(b) You acquired or made at your expense but cannot legally remove;

(7) Leased personal property for which you have a contractual responsibility to insure, unless otherwise provided for under Personal Property Of Others.

c. Personal Property Of Others that is:

(1) In your care, custody or control; and

(2) Located in or on the building or structure described in the Declarations or in the open (or in a vehicle) within 100 feet of the building or structure or within 100 feet of the premises described in the Declarations, whichever distance is greater.

Types of Property Covered and Not Covered

Learning Objective

- *Identify the types of property covered and not covered by the Building And Personal Property Coverage Form.*

Covered Property

Buildings

Although what constitutes a building and its business personal property may seem obvious, "building" takes on a very broad definition in commercial property coverage forms. The term, "building," includes the structure on the described premises, and the table below shows additional items included in the definition.

Table: 2.1

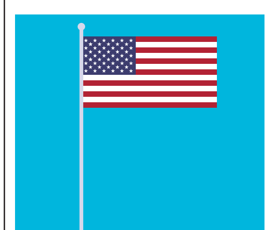
Included in Definition of "Building"		
Buildings and structures: completed additions	Covered buildings and structures that are complete as of the time of the loss are subject to the building limit of liability.	
Fixtures	Fixtures, including outdoor fixtures such as flag poles and light poles, can either be covered building property and/or business personal property, depending upon coverage needs and case law.	
Permanently installed machinery and equipment	Permanently installed machinery and equipment, such as the generator shown here, is also building property.	

Table: 2.1

Included in Definition of "Building"		
Additions under construction	This building property category can include additions under construction, alterations, and repairs to the building or structure if they are not covered by insurance elsewhere. This would include material, equipment, supplies, and temporary structures on or within 100 feet of the described premises and used for making additions, alterations, or repairs to the building or structure.	
Personal property used to service the building or its premises	Certain types of personal property used to maintain or service the building are insured within the limit of liability for "building personal property." • Fire extinguishing equipment • Floor coverings, such as hardwood floors and area rugs • Outdoor furniture, such as a patio set used for employees and customers • Appliances used for refrigerating, ventilating, cooking, dishwashing, and laundering; includes cleaning supplies such as wax and detergent used with appliances which service the building • Riding lawn mowers (pictured) or push mowers used to service the premises are considered "building"	

When selecting the limits of insurance, the agent and the insured must consider the value of all items described in this section of the policy.

Check-In

If no other insurance applies, which one of the following is covered under the unendorsed Building And Personal Property Coverage Form?

- ☐ Foundations below the surface of the ground
- ☐ Underground pipes, flues, or drains
- ☐ Bridges and roadways
- ☐ Additions that are in the process of being completed

Business Personal Property

In addition to buildings, the insured's business personal property is covered while located in or on the building described in the Declarations. It is also covered while it is in the open (or in a vehicle) within 100 feet of the described premises. Examples of business personal property are shown in the table below.

Explanation and Examples of Business Personal Property

Table: 2.2

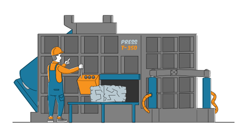
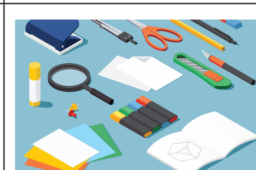
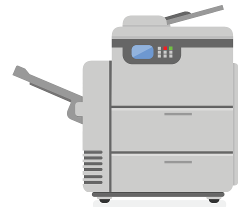
Types of Business Personal Property		
Stock	The inventory shown in this distribution warehouse	
Furniture and fixtures	Conference room tables and chairs (pictured), workstations, desks	
Machinery and equipment	Commercial sewing machines, computers, industrial presses at manufacturing plants (pictured)	
Other personal property owned by you and used for your business	Office supplies (pictured), work product materials	

Table: 2.2

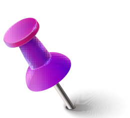
Types of Business Personal Property		
Leased personal property for which you have a contractual responsibility to insure	Copiers and printers leased by a business	
Labor, materials, and service that you furnish for the property of others	A custom upholstery job a furniture company has completed but has not yet delivered to the customer	
Use value to a tenant of improvements and betterments	Many tenants make permanent additions or alterations (such as countertops, shelving, or non-load bearing walls) to a building at their own expense. These additions or alterations belong to the tenant until the end of the lease, at which time they become the property of the landlord. These improvements and betterments are included in the definition of business personal property.	

Personal Property of Others

One way to insure the property of others in the insured's care is to list an amount of insurance for this category on the Declarations page. This coverage is for property that belongs to other people or organizations that is:

- in your care, custody, or control and/or
- located in or on the insured's building or in the open (or in a vehicle) within 100 feet of the described premises.

It's important to note that a special sublimit often applies to personal property of others.



Tip: When setting limits of insurance, be sure to consider all of the property types listed in Table 2.2, as these may have an effect on replacement cost and coinsurance requirements.

Property Not Covered

The Building And Personal Property Coverage Form also identifies what types of property are not covered. The reason these types of property are excluded is because other coverage forms may be more appropriate for addressing the exposures.

The chart below summarizes types of property not covered and the forms the insured needs to purchase to obtain coverage. In some cases, there is more than one way to obtain coverage.

Table: 2.3

Type of Property Not Covered	How to Buy Back Coverage
Accounts, bills, currency, food stamps, or other evidences of debt, money, notes or securities	Commercial Crime Coverage Forms
Animals, unless "boarded" or "your stock"	CP 14 10 Additional Covered Property or Inland Marine Coverage Forms
Autos held for sale	Garage Forms
Bridges, roadways, walks, patios, or other paved surfaces	CP 14 10 Additional Covered Property or Inland Marine Coverage Forms
Contraband, illegal transportation/trade	N/A (Not Insurable)
Excavations, grading, backfilling, or filling	CP 14 10 Additional Covered Property
Foundations of buildings, structures, or machinery	CP 14 10 Additional Covered Property
Land, water, growing crops or lawns (other than lawns which are part of a vegetated roof)	Crops or lawns—Inland Marine Coverage Forms; land and water is not insurable
Airborne or waterborne personal property	Inland Marine Coverage Forms or Ocean Marine Coverage Forms
Bulkheads, pilings, piers, wharves, or docks	CP 14 10 Additional Covered Property or Inland Marine Coverage Forms
Property covered elsewhere	Business Personal Property Form pays excess
Retaining walls not attached to the building	CP 14 10 Additional Covered Property
Underground pipes, flues, or drains	CP 14 10 Additional Covered Property
Electronic data (except stock of prepackaged software or electronic data which is integrated into the building operational system)	CP 04 30 E-Commerce or Inland Marine Coverage Forms
Research, replace, restore information or valuable papers and records	Valuable Papers and Records CP Form or Inland Marine Coverage Forms
Vehicles or self-propelled machines	CP 14 10 Additional Covered Property

Table: 2.3

Type of Property Not Covered	How to Buy Back Coverage
Certain outdoor property	Fences: CP 14 10 Additional Covered Property Trees: CP 14 30 Outdoor Trees, Shrubs, & Plants Antennas: CP 14 50 Radio or TV Antennas, or Inland Marine Coverage Forms

For some of these categories, a limited amount of coverage is provided in another part of the Building And Personal Property Coverage Form (which will be discussed later in this chapter). As stated, several of the excluded property items may be covered by use of other forms or specific endorsements. The value of these items should not be included in the limits of insurance unless coverage has been "bought back" through the **Additional Covered Property (CP 14 10) endorsement.**

If the building in which a business operates is owned, the policy will likely cover both the building and its personal property, but if the building is rented, it may only cover the personal property. The limits of building and personal property insurance apply separately to each occurrence, except for a small number of additional coverages specified in the policy. Unlike general liability limits, the Building And Personal Property Coverage Form is not subject to an any annual aggregates.

Knowledge Check

Acme Physicians, Inc., is purchasing a Commercial Property Policy for their medical facility. Are the following items covered under the Building And Personal Property Coverage Form, and, if so, how the items should be classified?

1. A lawn tractor used to maintain the premises

___

___

2. A leased MRI machine that Acme is contractually required to insure

___

___

3. The office manager's pet Labradoodle, which is brought into the office as a therapy dog for patients

___

___

Additional Coverages and Coverage Extensions

Learning Objective

- *Describe the Additional Coverages and Coverage Extensions provided by the Building And Personal Property Coverage Form.*

Additional Coverages

The Building And Personal Property Coverage Form outlines a varied list of property types that are covered for direct losses. Beyond the property that is covered for direct loss, the CP 00 10 provides some *Additional Coverages* which respond to indirect expenses that don't fall under the defined list of covered property.

Additional Coverages are limited amounts of coverage for specific types of losses or expenses which are provided in addition to the major property coverages.

These provisions expand the coverage provided in the Building And Personal Property Coverage Form. This "extra" coverage is provided for:

1. Debris Removal
2. Preservation of Property
3. Fire Department Service Charge
4. Pollutant Clean-Up and Removal
5. Increased Cost of Construction
6. Electronic Data

Debris Removal

In addition to the physical loss or damage to property caused by fire, tornado, or other covered causes of loss, the business owner is often left with debris that must be cleared away before the property can be repaired. Debris Removal pays the insured's expense to remove debris of covered property and other debris on the covered property, when caused by or resulting from a covered cause of loss.

The Debris Removal limit of insurance is twenty-five percent of the loss and is not an additional amount of insurance—meaning the damage to the property plus the debris removal expense are both subject to the limit shown on the Declarations.

Example:

Butler Properties has their building insured for $250,000. A tropical storm has caused a tree to fall through a portion of the roof, requiring $30,000 in building repairs.

Debris Removal Limit = 25% x Loss
$30,000 x .25 = $7,500

The amount payable for this loss would be **$37,500**.

If the loss to covered property and the debris removal expense is greater than the limit of insurance or if the debris removal expense exceeds the twenty-five percent limitation, an additional twenty-five thousand dollars is available for debris removal expense. It's important to note that the clean-up of pollutants from water or surrounding land is excluded from Debris Removal because it is covered separately.

Preservation of Property

In many cases, if a covered premise is threatened by a covered cause of loss, it may be necessary to move personal property to prevent damage. Preservation of Property coverage protects the property while it is being moved or stored at another location for up to 30 days. During these 30 days, the policy will cover any direct physical loss or damage. The normal causes of loss exclusions do not apply.

Preservation of property is one of the few instances when an insurer will cover property for any direct physical loss or damage, subject to the corresponding limit of insurance.

Fire Department Service Charge

Fire departments normally have an established territory within which the department responds to a call. Businesses located outside these boundaries are typically asked to sign an agreement with the fire department stating that if the business sends out a call, the fire department will respond. The policy will apply up to $1,000, unless a higher limit is shown in the Declarations page, to pay for the fee charged by the responding fire department.

Unlike Debris Removal or Preservation of Property, the limit provided by this additional coverage does not affect the limit of property insurance shown on the Declarations page.

Pollutant Clean-Up and Removal

If an insured suffers a covered cause of loss that also results in the pollution of land or water at the described premises, the policy will pay up to $10,000 per location to extract the pollutants from that land or water. The loss must be reported in writing within 180 days of the loss, and the coverage applies to the described premises only. The Commercial Lines Manual contains rules to increase this coverage, however most insurance companies are unwilling to raise this limit.

The $10,000 provided by this Additional Coverage is subject to an annual aggregate per location and is not subject to the limit of property insurance on the Declarations page.

Increased Cost of Construction

Increased Cost of Construction allows limited coverage for the increased cost of complying with building codes following damage to an insured building that is insured on a replacement cost basis. Coverage is limited to 5% of the building value, subject to a maximum of $10,000.

Note that this Additional Coverage only applies to damaged parts of the building.

Electronic Data

This Additional Coverage provides for the cost to replace or restore electronic data that has been destroyed or corrupted by a covered cause of loss. Within this Additional Coverage, the covered causes of loss are limited to named perils, regardless of the Causes of Loss form attached. Limited coverage for computer viruses is included. The total limit available for this coverage is $2,500 in any one policy year and is paid in addition to the limit of insurance for any coverages.

Check-In

For the following Additional Coverages, identify whether the amount payable is subject to the limit of property insurance shown on the Declarations page.

Directions: Circle the correct limit for the following Additional Coverages:

1. Debris Removal

   Subject to the limit **Not subject to the limit**

2. Preservation of Property

   Subject to the limit **Not subject to the limit**

3. Fire Department Service Charge

   Subject to the limit **Not subject to the limit**

4. Pollutant Clean-Up and Removal

   Subject to the limit **Not subject to the limit**

5. Increased Cost of Construction

   Subject to the limit **Not subject to the limit**

6. Electronic Data

   Subject to the limit **Not subject to the limit**

Coverage Extensions

Unlike the *Additional Coverages* that add coverage to the policy for indirect damages, *Coverage Extensions* increase the scope of the property that is already covered, so long as certain conditions are met. In all cases, the losses must result from a covered cause of loss.

For these Coverage Extensions to be activated, the following items apply:

- The Declarations must show the presence of 80% or higher coinsurance (coinsurance must be shown on the Declarations, but compliance with the Coinsurance clause is not required.); OR
- The Declarations must show a Value Reporting Symbol.

Other important considerations applicable to Coverage Extensions are:

- The loss must be a result of a covered cause of loss.
- Coverage Extensions provide additional insurance unless otherwise indicated.
- Coinsurance does not apply to these extensions.

The seven extensions are:

1. Newly Acquired or Constructed Property
2. Personal Effects and Property of Others
3. Valuable Papers and Records (Other Than Electronic Data)
4. Property Located Off-Premises
5. Outdoor Property
6. Non-owned Detached Trailers
7. Business Personal Property Temporarily in Portable Storage Units

Newly Acquired or Constructed Property

Newly acquired or constructed property is automatically covered up to a maximum of $250,000 per building, and newly acquired business personal property for each building is covered for not more than $100,000.

The coverage is limited to 30 days, at which time the newly acquired or constructed property must be reported to the insurance company and premium paid from date of acquisition for coverage to continue beyond the 30 days.

Personal Effects and Property of Others

Business personal property coverage can be extended to include personal effects, which is the personal property of the named insured, its management, and/or its employees. This part of the Coverage Extension does not include coverage for theft.

Business personal property may also be extended to cover personal property of others in the named insured's care, custody, or control. For either use of this Coverage Extension, there is a maximum payment (limit) of $2,500 per described premises.

Valuable Papers and Records (Other Than Electronic Data)

The insurer will pay up to $2,500 per premises to replace or restore information that is lost or damaged. This extension does not apply to valuable papers and records which are considered electronic data.

Property Located Off-Premises

Up to $10,000 may apply to cover the insured's covered property other than "stock" that is temporarily housed at a location not owned, leased, or operated by the insured. This could be property in storage at a location the insured leases, provided the lease began after the policy inception, or property at any fair, trade show, or exhibition. However, this does <u>not</u> apply to covered property:

- in or on a vehicle
- in the care of your salesperson, unless they are at a fair, trade show, or exhibition

Outdoor Property

To remember the covered perils for outdoor property, use the acronym, "FLARE":

F – Fire
L – Lightning
A – Aircraft
R – Riot or civil commotion
E – Explosion

This extension applies to fences, radio and television antennas, satellite dishes, trees, shrubs, and plants. Payment is limited to damage caused by fire, lightning, explosion, riot or civil commotion, or aircraft ONLY, regardless of the cause of loss that applies. Note that wind and hail, as well as vehicle damage, are not covered perils.

The maximum limit for this extension is $1,000 per occurrence, but not more than $250 for one tree, shrub, or plant

Non-Owned Detached Trailers

This extension provides coverage for a trailer that you do not own but which is used in the insured's business, provided:

- it is in the insured's care, custody, or control at the described premises
- the insured has a contractual responsibility for damages to it

The most that will be paid for a loss or damage under this extension is $5,000, unless a higher limit is shown in the Declarations. There is no coverage if the non-owned trailer is attached to any vehicle or during hitching or unhitching. This would be covered by excess insurance.

Business Personal Property Temporarily in Portable Storage Units

This Coverage Extension provides a limit of $10,000 for business personal property temporarily stored in a portable storage unit at or within 100 feet of the described premises. While a higher limit may be selected if shown on the Declarations page, this amount is the most that will be paid, regardless of the number of storage units.

Coverage is limited to no more than 90 days from when the storage unit was first put into use.

Tip: Understanding the distinction between an *Additional Coverage* and a *Coverage Extension* can be a challenge for insurance professionals, especially since these coverages all differ in how they affect the policy limit(s) shown on the Declarations page. Essentially, an *Additional Coverage* adds a type of coverage for those indirect expenses that don't fall under the defined list of covered property. By contrast, a *Coverage Extension* means that the coverage is already provided by the policy, but is extended in some way when certain policy conditions are met. The value of these additional and extended coverages can be significant and should be taken into consideration when selecting property limits.

Knowledge Check

Your insured had to temporarily move their personal property to another location for five days to avoid damage from an imminent wildfire. Under the "Preservation of Property" Additional Coverage of the Building And Personal Property Coverage Form, what causes of direct physical loss or damage will be covered at this temporary location?

Learning Objective

- *Explain how vacancy affects coverage and loss payment under the Building And Personal Property Coverage Form.*

Loss Conditions

The Building And Personal Property Coverage Form contains conditions in addition to the Common Policy Conditions (IL 00 17) and the Commercial Property Conditions (CP 00 90). Let's look at some of these additional conditions.

Loss Payment

In the event of a loss, the options for loss payment always belong to the insurer. The insurer has four options and will usually choose whichever option is most cost-effective for them. These options are:

1. Pay the value of the damaged property.
2. Pay the amount to repair or replace.
3. If there is property left, the insurer can take the property at an agreed or appraised value.
4. Repair the damaged property, or replace it with like kind.

The insurer will notify the insured of their intentions within 30 days of receiving the sworn proof of loss. The insurer will not pay the insured more than the insured's financial interest in the damaged or destroyed property.

Vacancy Condition

Vacancy poses special problems for both the insured and the insurer. Vacant buildings are usually more at risk for loss since they are unattended. An insurance company places limitations on a policy if a building is found to be vacant for more than 60 consecutive days prior to a loss.

Table: 2.4

How Do Insurance Companies Define Vacancy?	
Vacancy is defined two ways, depending on whether the insured is a tenant or the building owner.	
If the insured is a tenant	**If the insured is the building owner**
The insured's property is considered vacant if the unit does not contain enough business personal property to conduct customary operations.	The insured's building is considered vacant unless 31% or more of the building's total square footage is rented or is used to conduct customary operations.

What Happens If There's a Vacancy?

If a building has been vacant for more than 60 consecutive days before loss or damage occurs, there is no coverage for the following causes of loss:

- Vandalism
- Sprinkler Leakage
- Building Glass Breakage
- Water Damage
- Theft and Attempted Theft

For all other covered causes of loss such as fire, windstorm, lightning, etc., loss payment is reduced by 15%.

NOTE: Some states have a modified vacancy definition. Check your commercial property policies for any state amendatory endorsements to see if a change applies for your state. These forms are usually titled ***"Your State"—Changes or "Your State"—Amendatory Endorsement.***

Knowledge Check

Your insured, Celebration Properties, owns a building that is zoned for restaurant and retail use. The prior tenant went out of business and cancelled their lease on April 30th. Due to the lagging economy, Celebration Properties has been unable to find a new tenant to move into the building.

On July 5th, a fire destroys the building, resulting in $300,000 of damages. Ignoring any deductibles or coinsurance, how much would the Commercial Property Policy pay?

Valuation

The process of valuation is how an insurance company determines the value of a property in the event of a loss. The different types of valuation are described in the table below.

Actual cash value (ACV)	ACV is the default position of a policy when it comes to assessing loss.
Replacement cost for building losses $2,500 or less	If the building limit of insurance satisfies the coinsurance requirement and the loss is $2,500 or less, the insurer will pay replacement cost instead of ACV. This does not include any expenses due to Ordinance Or Law requirements. However, the following types of property will be valued at ACV even when attached to the building: • awning or floor coverings • appliances for refrigerating, ventilating, cooking, dishwashing, or laundering • outdoor equipment or furniture
Stock	Any stock sold but not delivered will be assessed at its selling price.
Glass	The policy will pay for glass at its replacement cost. The policy also covers the cost of upgrading to glass with safety glazing material, if the law requires it.
Tenants' improvements and betterments	Improvements to the property are payable at actual cash value, if the tenant makes the repairs immediately. Special provisions apply when the tenant does not make the repairs, however, those provisions are beyond the scope of this course.

The Rights of Mortgageholders

Learning Objective

- *Define the rights of mortgageholders as provided in commercial property coverage forms.*

Mortgageholders Clause

In the beginning of this course, we discussed how mortgageholders have an insurable interest in a property over which they hold the mortgage. The ISO Mortgageholders Clause applies to the mortgageholder named in the policy. If multiple lenders are included in the policy, they are covered in order of precedence. For example, suppose a policyholder has purchased a building with both a first and a second mortgage. If the building burns down, the lender listed on the first mortgage will be paid. The lender on the second mortgage will be paid only after the first lender has been compensated.

If the lender initiates a foreclosure action against the property owner before a loss occurs, that action will not affect the lender's right to recover for the loss under the policy.

Example

Hudson Logistics has a Commercial Property Policy with your agency. Their buildings are mortgaged through Samwell Lending.

A fire has recently destroyed one of Hudson's warehouses. At the time of loss, Hudson owed Samwell Lending $800,000 on their mortgage loan. Assuming the policy was written with adequate limits, the insurance carrier will make the claim payment to Samwell Lending for up to their insurable interest in the building, or $800,000.

NOTE: The limit that applies to the damaged property is the most that the policy will pay for loss or damage in any one occurrence, regardless of the number of insured parties or lenders listed.

The Mortgageholders Clause is designed to preserve the mortgageholder's rights, even if the named insured has violated a condition of the insurance contract.

In effect, the lender becomes the insured, with their own sets of rights and obligations, as shown:

Table: 2.5

Mortgageholder Rights and Obligations	
Rights	**Obligations**
• In the event of cancellation, the insurer will give the mortgageholder written notice ten days before effective date of cancellation for non-payment of premium and thirty days for any other reason. • In the event of non-renewal, the insurer will give written notice to the mortgageholder at least 10 days prior to the policy's expiration date.	An insurer will make a loss payment as long as the mortgageholder: • makes a premium payment if a premium payment is due • files a sworn statement of loss • notifies the insurer of a change in ownership or occupation

The Mortgageholders Clause is an important provision to have in a commercial property insurance policy because it ensures that the insurance company will pay the mortgagee if loss or damage occurs to the insured property.

Knowledge Check

Hudson Logistics has a Commercial Property Policy with a $950,000 replacement cost limit. The building is mortgaged through Samwell Lending, with $650,000 currently owed in principal and accrued interest.

A fire has recently destroyed their building. The insurance company has sent a claims adjuster to inspect the premises, but the claim is ultimately denied, as Hudson didn't allow the adjuster on-site.

How will Samwell Lending be indemnified for their insurable interest?

Optional Coverages

Learning Objective

- *Describe the optional coverages that may be "activated" from the Declarations of the Building And Personal Property Coverage Form.*

Four Types of Optional Coverages

As the name suggests, optional coverages are elective, meaning they must be purchased as an add-on to the existing policy. For these coverages to be effective, an entry must be made in the Declarations. There are four types of optional coverages for insuring commercial property:

- Agreed Value
- Inflation Guard
- Replacement Cost
- Extension Of Replacement Cost To Personal Property Of Others

Agreed Value

As discussed in Section 1, the Agreed Value provision suspends the Coinsurance condition when the insured files a Statement of Values Form with the insurance company. The provision remains in effect for one year. At every renewal, a new Statement of Values Form must be submitted to continue the Agreed Value provision.

Inflation Guard

The value of buildings and business personal property may increase over the course of time. Activating the Inflation Guard provision ensures that the limit of insurance automatically increases at an annual percentage shown on the Declarations. The limits are prorated daily throughout the year.

Replacement Cost

With Replacement Cost, the policy pays to replace damaged or destroyed property without deduction for depreciation. Even with this option selected, there are certain types of property that will still not be paid on a Replacement Cost basis:

- Personal property of others
- Contents of a residence
- Works of art, antiques, or rare articles
- "Stock" (unless included on Declarations)

It is also important to note that Replacement Cost does not include the increased cost that is a result of any Ordinance Or Law that regulates the construction, use, or repair of any property.

Extension Of Replacement Cost To Personal Property Of Others

If replacement cost on the insured's property has been chosen, then the option, Extension Of Replacement Cost To Personal Property Of Others, can be selected.

If a written contract (lease) applies, then recovery is limited to the lesser of the replacement cost or the contractual obligation. This could cause a gap if the contractual obligation is higher than the replacement cost. [There is an endorsement—**Leased Property Endorsement (CP 14 60)**—to fill this gap.]

A single piece of property can have many different values. When claims arise, the valuation of property is one of the most common points of disputes between policyholders and insurance companies. Accurately valuing property when determining insurance limits can be an art just as much as a science, and these optional coverages can mitigate some of these disputes by clearly stating how the policyholder will be indemnified after a loss.

Knowledge Check

Tabletop Gaming is a retail store that sells board games, comic books, and pop culture collectibles, including rare items. They have their business insured on a Building And Personal Property Coverage Form, with the Replacement Cost coverage selected. Explain to the policyholder how the Replacement Cost option would apply to their business personal property.

Summary

The Building And Personal Property Coverage Form (CP 00 10) is the most commonly used coverage form to insure commercial buildings and their contents. This form defines the following types of property that are covered:

Buildings – includes the structures, their completed additions, fixtures, permanently installed equipment, and any personal property that is used to maintain the premises

Business Personal Property – includes furniture and fixtures, equipment, stock, the cost of labor, and any improvements and betterments

Personal Property of Others – property of others in the insured's care, custody, or control

Beyond the coverage provided for direct losses to property, the CP 00 10 provides some Additional Coverages which respond to the indirect expenses relating to the cost to remove debris, the preservation of property, fire department service charges, pollutant cleanup and removal, increased costs of construction, and electronic data.

While the *Additional Coverages* adds coverage for indirect damages, *Coverage Extensions* increase the scope of the property that is already covered when the policy is written with a coinsurance percentage of 80% or higher. These extensions allow coverage for Newly Acquired or Constructed Property; Personal Effects and Property of Others; Valuable Papers and Records; Property Located Off-Premises; Outdoor Property; Non-owned Detached Trailers; and Business Personal Property Temporarily in Portable Storage Units.

The Commercial Property Policy is issued with a comprehensive set of conditions. There are Common Policy Conditions (IL 00 17) that apply to all lines of business and Commercial Property Conditions (CP 00 90). Additionally, the Building And Personal Property Coverage Form (CP 00 10) contains its own set of loss conditions that dictate how the property is valued after a loss. A key provision to be aware of is how coverage is affected when a property has been vacant for more than 60 days. Vacant buildings will not be covered for losses due to vandalism, sprinkler leakage, glass breakage, water damage, or theft. For those losses where coverage would still apply, the vacancy provision would reduce any amount payable by 15%.

The Building And Personal Property Coverage Form also includes four optional coverage provisions that affect property valuation: Agreed Value; Inflation Guard; Replacement Cost; and Replacement Cost of Personal Property of Others. These optional coverages are in place if they are indicated on the Declarations page for each scheduled item of property.

Resources

Important concepts related to the Learning Objectives in this section are summarized in separate videos. Online participants can use the links to access the videos. Classroom learners can access the videos at RiskEducation.org/IPresources.

▶	What is "Building"?
▶	Additional Coverages vs. Coverage Extensions
▶	Vacancy
▶	Optional Coverage

Section 2 Self-Quiz

Directions: Use the terms in the word bank to fill in the blanks. Terms may be used only once, and not all terms will be used.

Additional Coverages	**valuation**	**covered**	**30**
Coverage Extensions	**60**	**commercial**	**business personal property**
insured	**violated**	**not covered**	**building**

1. The Building And Personal Property Coverage Form (CP 00 10) is the most commonly used coverage form to insure ______________________________ buildings and their contents.

2. According to the Building And Personal Property Coverage Form, the term, ______________________________, refers to the structure on the described premises, as well as other elements, including additions and permanently installed machinery and equipment.

3. In addition to the building(s), the insured's ______________________________ is covered while located in or on the building(s) described in the Declarations.

4. Autos held for sale are one example of property ______________________________ under the Building And Personal Property Coverage form.

5. ______________________________ increase the scope of the property that is already covered, as long as certain conditions are met.

6. ______________________________ are limited amounts of coverage for specific types of indirect losses or expenses.

7. The Additional Coverage of Preservation of Property covers any direct physical loss or damage for up to ______________________________ days if the property needs to be moved or stored in another location to prevent damage.

8. If a building has been vacant for more than ______________________________ days, payments for covered losses will be reduced by 15%.

9. Insurance companies determine a property's financial worth in the event of a loss through the process of ________________________________.

10. The Mortgageholders Clause is designed to preserve the mortgageholder's rights, even if the named insured has ________________________________ conditions of the insurance contract.

Directions: Read each statement and indicate whether it is true or false.

1. Personal property of others is never covered under the Building And Personal Property Coverage Form.

   True **False**

2. The Additional Coverage of Debris Removal will pay 25% of the cost to remove from the covered property debris that was created by a covered cause of loss.

   True **False**

3. Newly Acquired or Constructed Property is listed as Additional Coverage on the Building And Personal Property Coverage Form.

   True **False**

4. All Additional Coverages on the Building And Personal Property Form are subject to the limit of property insurance listed on the Declarations page.

   True **False**

5. For Coverage Extensions to be activated, the Declarations must show the presence of 80% or higher coinsurance or a Value Reporting Symbol.

   True **False**

6. Additional Coverage and Coverage Extension are terms that essentially mean the same thing.

   True **False**

7. Vacancy poses no additional risk to the insured or insurer.

   True **False**

8. In the event of a loss to property for which the policyholder has two mortgages, the lender on the second mortgage will be paid only after the lender on the first mortgage has been compensated.

True **False**

9. Optional coverages are automatically activated unless policyholders choose to opt out of them.

True **False**

Directions: List the four types of optional coverages that may be "activated" from the Declarations of the Building And Personal Property Form.

1. ______________________________

2. ______________________________

3. ______________________________

4. ______________________________

Section 3: Causes of Loss Forms

Section Goal

In the previous lesson, you studied the Building And Personal Property Coverage Form, and now we challenge you to explore the perils as they are defined in the three Causes of Loss forms.

Commercial property programs offer three Causes of Loss forms, and we will learn to distinguish their differences. We will also study, in-depth, the limitations on certain property, additional coverage for collapse, and Coverage Extensions.

Since businesses can suffer losses caused by enforcement of ordinances or laws regulating construction and repair of damaged buildings, we will discuss these losses as well.

Learning Objectives

- *Differentiate between the three Causes of Loss forms: the Basic Form, the Broad Form, and the Special Form.*
- *Describe the three possible losses a business may face related to Ordinance Or Law exposures.*
- *Given a loss situation, apply the exclusions of the Causes of Loss – Special Form.*
- *Determine instances in which losses are covered under the Additional Coverage – Collapse.*
- *Demonstrate how the Additional Coverage – Limited Coverage For "Fungus," Wet Rot, Dry Rot, And Bacteria applies to a specific scenario.*
- *Ascertain whether a specified cause of loss would be covered by any of the three additional Coverage Extensions included in the Causes of Loss – Special Form.*

Introduction to Causes of Loss Forms

Consider the different types of losses that a businessowner could face, such as a fire. What are some common perils? When might a business choose to insure for every possible peril, as opposed to just a few?

The three commercial property Causes of Loss forms address a wide range of exposures with which commercial clients must contend. These forms provide coverage for specific groupings of perils—both named and open—allowing insureds a degree of latitude when selecting coverage for their property.

Types of Causes of Loss Forms

Learning Objective

- *Differentiate between the three Causes of Loss forms: the Basic Form, the Broad Form, and the Special Form.*

Named and Open Perils

The Commercial Property Causes of Loss forms combine with the Commercial Property Coverage Forms and Endorsements to complete the coverage portion of the Commercial Property Policy. The separate Causes of Loss forms provide the named insured with the flexibility to select coverage that addresses the particular needs of the business. The three Causes of Loss forms are the Basic Form, the Broad Form, and the Special Form. The first two Causes of Loss forms provide coverage on a named perils basis, whereas the Special Form provides coverage on an open perils basis.

Before we get into the differences between the types of Causes of Loss forms, we need to discuss the two approaches to determining causes of loss:

1. Named perils (Basic Form and Broad Form) and
2. Open perils (Special Form)

Table: 3.1

Named Perils	Open Perils
There are two types of Causes of Loss forms that are based on named perils: • Basic Form • Broad Form In this approach, the insured must prove that a named peril caused the loss to the property. The insured must prove that a covered cause of loss occurred.	There is only one Causes of Loss form that is based on open perils: • Special Form In this approach, the insurer pays for direct loss to property from any cause subject to the exclusions and limitations contained in the policy. The insurer must prove that an exclusion applies.

Table: 3.2

Cause of Loss	Basic Form (CP 10 10)	Broad Form (CP 10 20)	Special Form (CP 10 30)
Fire	X	X	X
Lightning	X	X	X
Explosion (Including sonic boom and water hammer)	X	X	X
Windstorm or Hail	X	X	X
Smoke	X	X	X
Aircraft or Vehicles	X	X	X
Riot or Civil Commotion	X	X	X
Vandalism	X	X	X
Sprinkler Leakage	X	X	X
Sinkhole Collapse	X	X	X
Volcanic Action	X	X	X
Additional Coverage – Limited Coverage For “Fungus,” Wet Rot, Dry Rot, And Bacteria	X	X	X
Falling Objects		X	X
Weight of Snow, Ice, or Sleet		X	X
Water Damage		X	X
Additional Coverage – Collapse		X	X
Direct Physical Loss			X

Basic Form (CP 10 10)—Named Perils

The Basic Form covers losses arising from eleven named perils, plus the Additional Coverage – Limited Coverage For “Fungus,” Wet Rot, Dry Rot And Bacteria. The burden of proof lies with the insured to show that the loss was caused by one of the eleven perils. This form:

- covers losses arising from any of eleven named perils;
- requires the insured show that the loss was caused by the peril, as defined and limited in the coverage form; and
- may exclude, by endorsement, damage caused by wind or hail, vandalism, or sprinkler leakage.

Broad Form (CP 10 20)—Additional Named Perils

The Broad Form provides coverage for all the named perils and the Additional Coverage in the Basic Form, plus loss caused by:

- Falling objects
- Weight of snow, ice or sleet
- Water damage
- Additional Coverage – Collapse

Damage caused by wind, hail, vandalism, sprinkler leakage, or theft may be excluded by endorsement.

Special Form (CP 10 30)—Open Perils

The Special Form provides coverage on a “risks of physical loss” basis. It uses the open perils approach and pays for loss or damage as a result of direct physical loss, with certain exclusions and limitations. This is the only form that includes theft, which is a very important peril to many insureds. Theft is covered because it is not excluded. With this type of form, in order to deny a claim, the insurer must prove that an exclusion applies.

We will study the Special Form in-depth since it is the most commonly used form. It tells us that the policy will pay for **risks of direct physical loss**, unless the loss is either:

- excluded in Section B – Exclusions, or
- limited by Section C – Limitations.

Also, damage caused by wind, hail, vandalism, sprinkler leakage, or theft may be excluded by endorsement.

As you can see from the information provided so far, the Special Form gives the insured very broad coverage. The remainder of this section provides a review of what coverage is excluded or limited by this form.

Knowledge Check

Directions: Explain the advantage of using the Causes of Loss – Special Form. How does the Special Form differ from the Basic and Broad Causes of Loss forms?

Exclusions

Learning Objective

- *Describe the three possible losses a business may face related to Ordinance Or Law exposures.*

What Exclusions Apply to Open Perils Policies?

With an open perils policy (Special Form), the exclusions really define the coverage. Within the Causes of Loss – Special Form, you will find three sets of exclusions: exclusions that are common to all forms, Special Form exclusions, and concurrent causation exclusions.

Exclusions Common to All Forms – All of the Causes of Loss forms contain this set of exclusions. These losses are excluded regardless of any other cause or event that contributes concurrently (at the same time) or in any sequence to the loss. There are eight exclusions: Ordinance Or Law; Earth Movement; Governmental Action; Nuclear Hazard; Utility Services; War And Military Action; Water; and "Fungus," Wet Rot, Dry Rot, And Bacteria.

Special Form Exclusions – Twelve additional exclusions are found only in the Special Form. These exclusions are necessary because the Special Form is an open perils form, and the insurer may choose not to cover certain exposures. The Special Form excludes coverage for artificially generated currents; delay, loss, or use of market; smoke damage caused by industrial operations; wear and tear; damage caused by steam explosion; continuous seepage of water; water damage from burst pipes; losses caused by anyone entrusted with property; voluntary parting with property; weather losses to personal property left outside; collapse (except for coverage for Additional Coverage – Collapse); and release or escape of pollutants.

Concurrent Causation Exclusions – If a loss is caused by two perils, one of which is clearly excluded and one of which is not excluded, **"concurrent causation"** holds that the policy must pay for the loss caused by the peril that is not excluded. To prevent the insurer from having to pay for losses it never intended to pay, three exclusions have been added: contributing weather conditions; acts or decisions of persons or authorities; and faulty, inadequate, or defective design or maintenance. These exclusions will be discussed in more detail later in this section.

Exclusions Common to All Forms

a. Ordinance Or Law

Insurers will not cover any exposures incurred by the insured as a result of the enforcement of any Ordinance Or Law. For example, some communities require that if a building has been damaged to some specified extent (often 50%), it must be demolished and reconstructed to comply with current building codes. Because of the Ordinance Or Law exclusion, the policy will pay only for the damaged half of the building.

The insured now faces three uninsured exposures:

- the value of the undamaged part of the building because it is no longer useable;
- the cost to demolish the building; and
- the increased cost to rebuild the structure to satisfy current codes.

Example

The Longshore Dance Studio is located in a building valued with a $400,000 replacement cost. Their local ordinance states that if a building is damaged more than 50%, it must be torn down and rebuilt to comply with the most current building codes.

In the years since the building was originally constructed, the county has mandated that all commercial buildings located in that zip code be built with wind-resistive construction and include an automatic sprinkler system.

A fire has recently destroyed 60% of their building ($240,000). Here are the additional losses that are excluded by the Ordinance Or Law exclusion:

- The value of the undamaged portion of the building = $160,000
- The cost to demolish the building = $20,000
- The increased construction costs for:
  - wind-resistive construction = $125,000
  - automatic sprinkler system = $60,000

Total cost to rebuild Longshore Dance Studio = **$605,000**

Because of the Ordinance Or Law exclusion, the insurance carrier would only pay $240,000 for this claim.

These types of expenses can be very high for many insureds. So what can be done? There is a solution. By attaching the **Ordinance Or Law Coverage (CP 04 05) endorsement** to the policy, the insured can buy coverage for the following:

- Coverage A – Coverage for Loss to the Undamaged Portion of the Building
- Coverage B – Demolition Cost Coverage (subject to a separate limit on the endorsement)
- Coverage C – Increased Cost of Construction Coverage (subject to a separate limit on the endorsement)

Tip: Coverages B and C may be written as blanket coverage with a single limit.

Check-In

Directions: You recently issued a Commercial Property Policy for your new client, Vance Refrigeration. In reviewing the policy, Bob Vance asks you about the Ordinance Or Law Coverage endorsement. Match the coverage name to the correct type of coverage it provides.

Coverage A	_____ Covers the costs of demolition of the undamaged portion of the property
Coverage B	_____ Covers the increased cost of construction expenses to repair/replace the property to comply with building/zoning code ordinances.
Coverage C	_____ Covers the loss of value of the undamaged portion of the existing property

b. Earth Movement

Insurers will not pay for any damage caused by movement of the earth. However, damage caused by a fire or explosion *following* an earthquake is covered. This exposure gives rise to the need for the **Earthquake and Volcanic Eruption Endorsement (CP 10 40).**

It's important to note that this endorsement does not remove the Earth Movement exclusion found in the Causes of Loss forms. This endorsement provides coverage only for earthquake and volcanic eruption, as defined in the endorsement.

c. Governmental Action

If the government seizes a property, the loss is not covered.

d. Nuclear Hazard

Any damage caused by a nuclear incident is not covered, but any resulting fire *is* covered.

e. Utility Services

On-premises damage caused by an interruption of off-premises utility services is not covered.

However, any damage caused by a fire, even if that fire is caused by interruption of off-premises utility services, is covered.

Example

An insured owns a manufacturing plant that uses water-cooled machines. A loss of water due to damage by a covered cause of loss at the off-premises water supply location causes the machine's sensitive parts to overheat and melt down. The damage to the machines is not covered. However, if the damage to the machines sparks an external fire, any resultant fire damage is covered.

f. War And Military Action

Damages caused by an act of war, including undeclared civil war and other warlike actions by a military force, are not covered.

g. Water

The following types of water losses are not covered:

- Flood, surface water, waves, tides, tidal waves, overflow of any body of water or their spray (whether driven by wind or not);
- Mudslide or mudflow;
- Sewer, drain, and sump back-up or overflow; and
- Water under the ground surface that presses on, flows, or seeps through:
  - foundations, walls, floors, or paved surfaces;
  - basements; and
  - doors, windows, or other openings.
- Material carried by water, mudslide, or mudflow

However, water damage caused by falling rain IS covered if there is exterior damage caused by a covered cause of loss.

Example

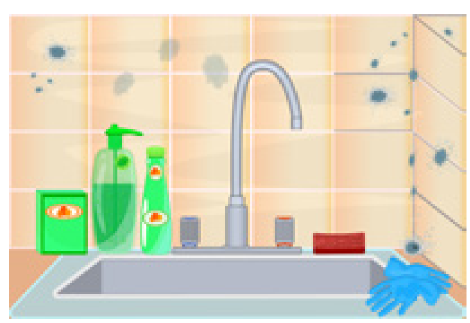
A windstorm rips off a building's roof and the damage caused by rain to the interior is covered. However, if someone left a window open and wind blew in, causing damages, that loss would not be covered.

If fire, explosion, or sprinkler leakage occurs because of the water damage listed above, the insurer will pay for the loss caused by the fire, explosion, or sprinkler leakage.

These losses are excluded due to the catastrophic nature of flood exposures. However, special policies (at appropriate premiums) are available to cover flood losses.

Flood coverage may be provided by endorsement (CP 10 65).

h. "Fungus," Wet Rot, Dry Rot, And Bacteria



Coverage is limited to damage caused by specified causes of loss if they are the result of fungus, wet rot, dry rot, and bacteria. The exclusion does not apply when fungus, wet or dry rot, or bacteria results from fire or lightning, or to the extent it is covered under the Additional Coverage – Limited Coverage For "Fungus," Wet Rot, Dry Rot, And Bacteria with respect to loss or damage by a cause of loss other than fire or lightning.

Knowledge Check

College Park Furniture Outlet insures their building for a $850,000 limit with replacement cost valuation. Their local ordinance states that if a building is damaged more than 50%, it must be torn down and rebuilt to comply with the most current building codes.

In the years since the building was originally constructed, the county has mandated that all commercial buildings located in that zip code be constructed with energy efficient insulation and automatic sprinkler systems.

A tornado has recently destroyed 60% of their building.

Directions: Identify three of their loss exposures that are attributable to the Ordinance Or Law exclusion.

1. ______________________________

2. ______________________________

3. ______________________________

Special Form Exclusions

Learning Objective

- *Given a loss situation, apply the exclusions of the Causes of Loss – Special Form.*

In addition to the exclusions we just covered, there are a number of exclusions found only in the Special Form. These exclusions are necessary because the Special Form is an open perils form, and the insurer has certain exposures that it does not wish to cover.

a. Artificially generated currents

Although damage caused by power surges or brown-outs can be extensive, this type of damage is excluded.

b. Delay, loss of use, or loss of market

This exclusion includes delay, loss of use, or loss of market, which are indirect losses involving the loss of income that can result when a business suffers a direct loss. Time Element forms must be used to handle these exposures. We will study the basics of time element insurance in the next section.

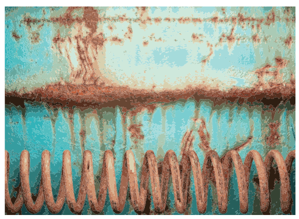
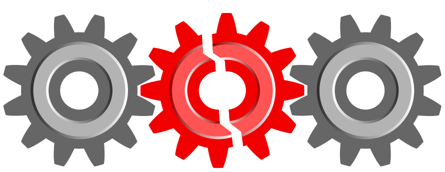
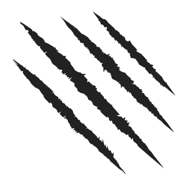
c. Smoke damage caused by industrial operations

Damage caused by smoke, vapor, or gas from agricultural smudging or industrial operations is excluded.

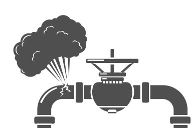
d. Wear and tear

The losses you see listed under the wear and tear group of perils are generally not the subject of insurance since most of them are preventable. However, if any of these losses results in a “specified cause of loss” or building glass breakage, the company will pay for the damage.

Table: 3.3

Wear and Tear Exclusions	
Rust 	**Smog** 
Settling, cracking, shrinking, or expanding 	**Nesting or infestations** 
Mechanical breakdown 	**Damage to personal property by marring, scratching, dampness, dryness, or changes in temperature** 

e. Explosion of steam boilers, steam pipes, steam engines, or steam turbines

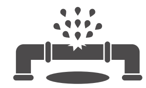


This exclusion includes damages caused by the explosion of steam boilers, steam pipes, steam engines, or steam turbines other than fire damage. Insureds should look to a Boiler and Machinery or Equipment Breakdown policy for coverage for these types of exposures.

f. Continuous seepage of water

Losses attributable to continuous or repeated seepage or leakage of water over a period of 14 days or more is excluded. This is often a maintenance issue and not the subject of insurance.

g. Water damage from burst pipes

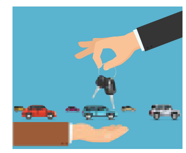


This exclusion applies to damages caused when pipes freeze, burst, and then thaw. It only applies when the insured fails to take reasonable precautions to maintain and protect the plumbing system.

h. Losses caused by anyone entrusted with property

Dishonest and criminal acts of the insured, partners, members, officers, managers, employees (including leased employees), directors, trustees, and other authorized representatives are excluded from coverage. A Fidelity or Employee Dishonesty Bond would be a good option for covering the peril of employee theft.

i. Voluntary parting with property



This exclusion denies coverage when an insured voluntarily gives the property to someone who has tricked the insured into doing so. Losses attributable to scammers and con-artists have no coverage.

j. Weather losses to personal property left outside

This exclusion denies coverage to property in the open which is damaged by rain, snow, sleet, or ice.

k. Collapse—except for coverage found in Additional Coverage for Collapse

The policy form excludes coverage for damages caused by collapse, other than the coverage found under the section detailing Additional Coverage for Collapse. We will discuss this Additional Coverage shortly.

l. Release or escape of pollutants

Damage caused by the release or escape of pollutants can result in enormous costs. The policy generally excludes coverage for pollution unless the release of the pollutants happened because a covered cause of loss occurred. This limited pollution coverage applies on-premises, only.

Check-In

Your insured has the Causes of Loss – Special Form insuring their warehouse and its contents. Severe cold weather causes the water pipes to freeze and burst. Water seepage from the broken pipes causes significant damage. Under which situation might this loss be covered?

- ☐ If the insured turned the heat off in the building
- ☐ If the insured did their best to maintain heat in the building
- ☐ If the insured placed their business personal property on raised pallets
- ☐ Water damage is not a covered cause of loss.

Concurrent Causation Exclusions

Concurrent causation holds that if property covered by an open perils policy suffers a loss caused by two perils—one which is excluded by the policy and one which is covered—the policy must pay. To prevent application of the concurrent causation doctrine, several exclusions have been added to the Causes of Loss – Special Form. These exclusions were developed to prevent the insurer from having to pay for losses it never intended to pay.

The exclusions that were added include:

- Contributing weather conditions
- Acts or decisions of persons or authorities
- Faulty, inadequate, or defective design or maintenance

Contributing weather conditions

This exclusion applies to weather conditions that contribute to a cause of loss found in the first group of exclusions (Ordinance Or Law; Earth Movement; Governmental Action; Nuclear Hazard; Utility Services; War and Military Action; Water; and "Fungus," Wet Rot, Dry Rot, And Bacteria).

Example

Torrential rains cause a mudslide to destroy a building. Prior to the existence of this exclusion, insureds might claim that the loss was not caused by mudslide, which was clearly excluded, but rather caused by "weather conditions," which were not excluded. Courts often agreed, citing the concurrent causation doctrine.

Acts of persons or authorities

This exclusion addresses losses due to acts or decisions, including failure to act, of persons or authorities.

Example

Assume that a river authority neglects to open floodgates during a threatening rain storm, resulting in flooding of buildings above the dam. Without this exclusion, the insured could claim that the cause of the loss was negligent failure of the river authority to act, rather than flood.

Inadequate design or maintenance

Losses due to faulty, inadequate, or defective planning, design, materials, or maintenance are excluded.

Limitations on Certain Property

In addition to the exclusions we have above, the Special Form includes limitations on specific types of property. There are losses to certain types of property that are not covered; some items are not going to be covered on an open perils basis; and some items have dollar limitations on how much the policy will pay for the peril of theft.

Losses Not Covered

Damage to steam engines – Damage to a steam engine caused by mechanical breakdown or internal explosion is not a covered loss; special policies are required for coverage.

Hot water boiler damage – Damage to a hot water boiler caused by an internal explosion is not a covered loss; special policies are required for coverage.

Damage to interior property – Damage to interior property caused by external forces such as rain or ice is not covered unless there is exterior damage by a covered cause of loss.

Theft of building construction materials – Theft of building construction materials is not a covered loss.

Inventory shortage – An inventory shortage is not covered if the shortage is the only indication that a loss occurred.

Property transferred by unauthorized instruction – Property transferred by unauthorized instructions is not a covered loss. However, special crime forms provide coverage for certain types of fraud.

Special Items

The open perils coverage provided by the Special Form does not apply to all property, and some items are covered only if their loss results from a specified cause of loss. These include:

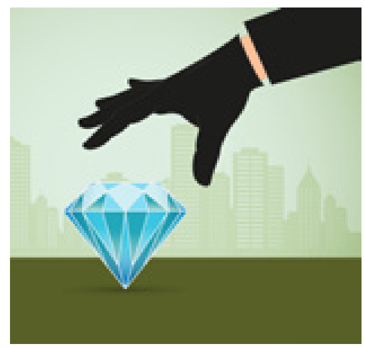
- Valuable papers
- Animals
- Fragile items
- Off-premises builder's equipment.

Limitations on Theft

The Special Form also limits the dollar amount the policy will pay for the theft of certain items. Although these exposures can vary widely, a total occurrence limit determines the maximum amount a company will pay.

Table: 3.4

Theft Loss Payment Limits	Item
$2,500	Furs and fur garments
$2,500	Jewelry, watches, etc.
$2,500	Patterns, dies, molds, and forms
$250	Stamps, tickets, lottery tickets



Limitations on Appliance or Systems

Water damages resulting from leaking appliances are covered by the Special Form. However, the policy will not pay to repair the damage to the appliance itself.

Understanding the exclusions and limitations within the property policy are important for insurance professionals for many reasons. Exclusions exist because certain losses may be too catastrophic, they may be better addressed by regular maintenance, or because certain types of property are better insured under another line of business. Recognizing the coverage gaps created by these exclusions allows insurance professionals to identify which gaps can be filled through endorsements or additional policies.

Knowledge Check

Rose Grocery has a Commercial Property Policy endorsed with a Causes of Loss – Special Form attached.

Directions: Explain what coverage, if any, is available for the following claims. If coverage is excluded, name the exclusion that applies:

1. A recent storm caused a power outage throughout the neighborhood. $8,000 worth of refrigerated inventory was spoiled.

---

2. Heavy rains caused the ground water to rise and enter the store, damaging the carpets and merchandise.

---

3. Rose caught one of his employees stealing wine. An investigation revealed that this employee was stealing one bottle of wine every week for the past several years.

---

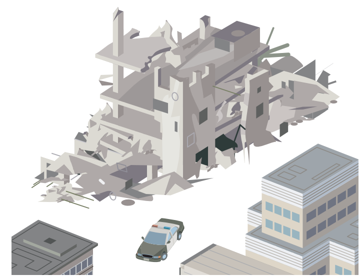
4. During a storm, a chunk of hail damaged a window, allowing rain to enter the building, causing significant damage to the floors, furniture, and most of the inventory.

Additional Coverage – Collapse

Learning Objective

- *Determine instances in which losses are covered under the Additional Coverage – Collapse.*

Limitations on Coverage for Collapse



The subject of collapse has generated much controversy. The issue of what does and does not constitute a collapse has been debated in many claims and court cases. Because the peril of Collapse is so broad, it is excluded and then given back as an Additional Coverage so it can be specifically limited. Collapse losses are covered only if they are caused by one of the following:

- A specified cause of loss (see page 10 of the Causes of Loss – Special Form)
- Hidden decay (dry rot)
- Hidden damage by insects, such as termites
- Weight of people or property
- Weight of rain on roof
- Use of defective material or building methods, if the collapse occurs during construction of a building

2. "Specified causes of loss" means the following: fire; lightning; explosion; windstorm or hail; smoke; aircraft or vehicles; riot or civil commotion; vandalism; leakage from fire-extinguishing equipment; sinkhole collapse; volcanic action; falling objects; weight of snow, ice or sleet; water damage.

a. Sinkhole collapse means the sudden sinking or collapse of land into underground empty spaces created by the action of water on limestone or dolomite. This cause of loss does not include:

(1) The cost of filling sinkholes; or

(2) Sinking or collapse of land into man-made underground cavities.

b. Falling objects does not include loss or damage to:

(1) Personal property in the open; or

(2) The interior of a building or structure, or property inside a building or structure, unless the roof or an outside wall of the building or structure is first damaged by a falling object.

Personal property damaged in a collapse is covered only if the property was inside the building at the time of collapse and only if the collapse itself was caused by a covered cause of collapse.

Certain outdoor property will be covered if the collapse is caused by a covered cause of loss and only if:

1. the loss is a direct result of the collapse of the insured building; and,
2. the property is considered covered property under this coverage form.

This Additional Coverage is found only in the Broad (CP 10 20) and Special (CP 10 30) Causes of Loss forms. It is also important to note that this additional coverage does <u>not</u> increase the limits of insurance.

Knowledge Check

Bogie's Piano Bar is insured on a Building And Personal Property Coverage Form with a Causes of Loss – Special Form attached. Bogie's building collapsed due to undetected termite damage.

Directions: Explain whether his policy will cover this loss.

Additional Coverage – Limited Coverage For "Fungus," Wet Rot, Dry Rot, And Bacteria

Learning Objective

- *Demonstrate how the Additional Coverage – Limited Coverage For "Fungus," Wet Rot, Dry Rot, And Bacteria applies to a specific scenario.*

Limitations on Coverage for "Fungus," Wet Rot, Dry Rot, And Bacteria

Like Collapse, the impact of fungus and mold claims has been an increasing concern for insurance carriers. Commercial and industrial facilities can be faced with *sick building syndrome* in which individuals suffer from symptoms or illness or contract chronic diseases from the building in which they work or live. As a result, fungus, wet rot, dry rot, and bacteria have garnered media attention and brought an awareness of these risks to the forefront of workplace safety concerns.

Site inspections, air evaluations, and cleanup of buildings can be very costly in terms of lost time and production. Because of this, claims for mold damage have been increasing markedly in frequency and severity, to a point where insurance companies have become quite concerned about the large financial impact this growing problem threatens to present.

With this background in mind, the Additional Coverage, which is part of the Causes of Loss form, contains a total limit of coverage up to $15,000 for mold resulting from a named peril. The limit is an annual aggregate limit and is designed to pay for the following:

- Direct physical loss or damage caused by fungus to covered property, including the cost of removing the fungus

- The cost to tear out and replace any part of the building or other property, as needed, to gain access to the fungus
- The cost of testing performed after the removal, repair, replacement, or restoration of the damaged property is completed

Example

Carpe Diem Day Spa has a small leak in their ceiling which goes unnoticed until their drywalls and ceiling panels begin to show signs of mold. Their Building And Personal Property coverage form will pay for the following:

- **Direct physical loss or damage to covered property caused by fungus, including the cost of removing the fungus:** This coverage would include the cost of removing the moldy drywall and replacing it with new drywall.
- **The cost to tear out and replace any part of the building or other property as needed to gain access to the fungus:** Suppose the mold has infiltrated the insulation behind the drywall. To gain access to the damaged insulation, workers need to remove some of the drywall that isn't moldy. The policy would cover the cost of tearing out and replacing the undamaged drywall.
- **The cost of testing performed after the removal, repair, replacement, or restoration of the damaged property is completed:** The policy would cover the cost of testing needed to ensure that no mold remains after the damaged insulation and drywall have been replaced.

The $15,000 annual aggregate limit under this Additional Coverage is the most the policy will pay for all the expenses described above.

E. Additional Coverage – Limited Coverage For "Fungus", Wet Rot, Dry Rot And Bacteria

1. The coverage described in **E.2.** and **E.6.** only applies when the "fungus", wet or dry rot or bacteria are the result of one or more of the following causes that occur during the policy period and only if all reasonable means were used to save and preserve the property from further damage at the time of and after that occurrence:
   a. A "specified cause of loss" other than fire or lightning; or
   b. Flood, if the Flood Coverage Endorsement applies to the affected premises.

   This Additional Coverage does not apply to lawns, trees, shrubs or plants which are part of a vegetated roof.
2. We will pay for loss or damage by "fungus", wet or dry rot or bacteria. As used in this Limited Coverage, the term loss or damage means:
   a. Direct physical loss or damage to Covered Property caused by "fungus", wet or dry rot or bacteria, including the cost of removal of the "fungus", wet or dry rot or bacteria;
   b. The cost to tear out and replace any part of the building or other property as needed to gain access to the "fungus", wet or dry rot or bacteria; and
   c. The cost of testing performed after removal, repair, replacement or restoration of the damaged property is completed, provided there is a reason to believe that "fungus", wet or dry rot or bacteria are present.

An optional endorsement, **Changes – Fungus, Wet Rot, Dry Rot And Bacteria (CP 04 31),** can be purchased to do the following:

- Increase the basic dollar limit
- Modify the application of the dollar limit
- Increase the number of days for time element coverage

This endorsement and limited coverage provided under the Causes of Loss forms are intended to be the only sources of recovery for mold-related losses. It is important to note that $15,000 exceeds the cost of most mold remediation claims and therefore is highly responsive to the exposure, while mitigating the potential for excessive costs.

Knowledge Check

Jack Torrance owns a boutique hotel insured on a Building And Personal Property Coverage Form endorsed with a Causes of Loss – Special Form attached.

After a recent hurricane, the hotel suffered minimal damages around some windows and doors. A few weeks after those repairs were completed, Jack noticed that mold was present near the windows that had been replaced.

Directions: Explain how the policy would respond to this claim.

Additional Coverage Extensions Included in the Causes of Loss – Special Form

Learning Objective

- *Ascertain whether a specified cause of loss would be covered by any of the three additional Coverage Extensions included in the Causes of Loss – Special Form.*

Three Coverage Extensions

The Causes of Loss – Special Form includes three extensions of coverage not found in the Causes of Loss – Basic Form or in the Causes of Loss – Broad Form.

These three extensions address:

- property in transit
- water damage, other liquids, powder, and molten material damage
- glass

Property in Transit

Business or personal property in transit is covered up to $5,000 if the property is being transported in a vehicle the insured owns or operates (salespeople, however, are excluded from this coverage).

To be considered a covered loss, the damage must be caused by:

- fire, lightning, explosion, windstorm, or hail
- riot, civil commotion, or vandalism
- vehicle collision
- theft of an entire package as evidenced by visible signs of forced entry into a securely locked vehicle or compartment of a vehicle

F. Additional Coverage Extensions

1. Property In Transit

This Extension applies only to your personal property to which this form applies.

a. You may extend the insurance provided by this Coverage Part to apply to your personal property (other than property in the care, custody or control of your salespersons) in transit more than 100 feet from the described premises. Property must be in or on a motor vehicle you own, lease or operate while between points in the coverage territory.

b. Loss or damage must be caused by or result from one of the following causes of loss:

(1) Fire, lightning, explosion, windstorm or hail, riot or civil commotion, or vandalism.

(2) Vehicle collision, upset or overturn. Collision means accidental contact of your vehicle with another vehicle or object. It does not mean your vehicle's contact with the roadbed.

(3) Theft of an entire bale, case or package by forced entry into a securely locked body or compartment of the vehicle. There must be visible marks of the forced entry.

c. The most we will pay for loss or damage under this Extension is $5,000.

This Coverage Extension is additional insurance. The Additional Condition, Coinsurance, does not apply to this Extension.

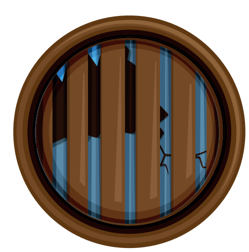
The $5,000 limit provided by this extension is intended to respond to incidental transit exposures. Businesses that have any kind of regular transit exposure should buy the appropriate inland marine coverage to address this need.

Water Damage, Other Liquids, Powder, or Molten Material Damage

If the insured sustains a loss due to a covered water damage loss, the insurer will pay the cost to tear out and replace parts of the building necessary to get to the source that caused the damage within the building. However, this Coverage Extension does not cover repair the damage to the system itself, nor does increase the limit of insurance.

Glass

This Coverage Extension will pay expenses for putting up temporary plates or to board-up openings if repair or replacement of damaged glass is delayed. It will also cover expenses incurred to remove or replace obstructions when repairing or replacing glass that is part of a building. The cost to remove or replace window displays, however, is not covered. This Coverage Extension does not increase the limit of insurance.



Knowledge Check

Jeff Smith owns Downtown Wine & Cheese, which is insured on an unendorsed Building And Personal Property Coverage Form with a Causes of Loss – Special Form attached.

Directions: Explain if there is coverage for the following claims:

1. One of their sales representatives sets up a booth at the weekly farmers' market. While en route, she is rear-ended by another vehicle, resulting in $1,000 of damaged inventory.

2. A plumbing pipe behind the bar leaked, causing minor damage to the hardwood flooring. The cost to repair the plumbing system was $800, but the plumber had to tear out sections of the wall and surrounding bar. The cost to repair the sections of the wall and the bar that had to be torn out was $1,500.

3. An attempted robbery was thwarted after Jeff's security alarm went off, but not before the thieves shattered the front windows of the store. Due to the size of the windows, full repair/replacement is not possible for several weeks.

Summary

The Causes of Loss form is a required component of the ISO Commercial Property Program. The three Causes of Loss forms are the Basic Form, the Broad Form, and the Special Form. The Basic Form covers losses arising from eleven named perils. The Broad Form provides coverage for all the named perils and the Additional Coverages found in the Basic Form, as well as for loss caused by falling objects; the weight of snow, ice, or sleet; water damage; and an Additional Coverage for Collapse. With the Basic and Broad Forms, the burden of proof lies with the insured to show that the loss was covered by one of the specifically named perils.

Conversely, the Special Form uses the open perils approach and pays for damages as a result of any direct physical loss, UNLESS that loss is specifically excluded. With the Special Form, the burden of proof is shifted to the insurance company to prove that a loss is excluded before a claim can be denied.

The Causes of Loss – Special Form contains three sets of exclusions: exclusions common to all forms; Special Form exclusions; and concurrent causation exclusions. One of the exclusions found in all Causes of Loss forms is the Ordinance Or Law exclusion. This exclusion presents a significant coverage gap that can be addressed by purchasing an additional endorsement that will respond to the loss of the value of the undamaged portion of a building; the cost to demolish the building; and the increased cost to rebuild the structure in compliance with current building codes.

Since the Special Form is an open perils form, there are additional exclusions and limitations that define the exposures the insurer intends to cover. For example, coverage for theft is provided on the Special Form, but specific sublimits apply to certain high value items. Certain exposures are excluded, but then given back as an Additional Coverages subject to specified perils and coverage limits. For instance, collapse is excluded, but given back with a more narrow definition as to the type of collapse that will be covered. By a similar token, losses due to fungus, wet rot, dry rot, and bacteria are excluded, but then given back with a $15,000 annual limitation. Understanding the coverage gaps created by these exclusions allows insurance professionals to identify which gaps can be filled through endorsements or additional policies.

Resources

Important concepts related to the Learning Objectives in this section are summarized in separate videos. Online participants can use the links to access the videos. Classroom learners can access the videos at RiskEducation.org/IPresources.

Water Exclusion
Concurrent Causation
Limitations on Certain Property
Collapse

Section 3 Self-Quiz

Directions: Respond to each of the questions.

1. How does the Causes of Loss – Special Form differ from the Causes of Loss – Basic Form and Causes of Loss – Broad Form? Include the terms *named perils* and *open perils* in your answer.

2. After 70% of a building was damaged in a fire, local building codes required the property owner to demolish the building. What exposures does the owner now face under the Ordinance Or Law exclusion?

Directions: For each scenario, write the letter of the Special Form exclusion that applies.

Exclusion A (Artificially generated currents)

Exclusion B (Delay, Loss of use, or Loss of Market)

Exclusion C (Smoke damage caused by industrial operations)

Exclusion D (Wear and Tear)

Exclusion E (Damage caused by steam engine explosion)

Exclusion F (Continuous seepage of water)

Exclusion G (Water damage from burst pipes)

Exclusion H (Losses caused by anyone entrusted with property)

Exclusion I (Voluntarily parting with property)

Exclusion J (Weather losses to personal property left outside)

Exclusion K (Collapse – except for coverage found in Additional Coverage for Collapse)

Exclusion L (Release or escape of pollutants)

_________1. A building with a rodent infestation faces significant losses from mice chewing through wood frames and electrical cords.

_________2. A building owner turns off the heat to save money while the building is closed for a winter holiday. The pipes freeze and burst, causing extensive water damage.

_________3. An insured is tricked into signing over the title to a company vehicle.

_________4. A restaurant's outdoor tables and chairs are damaged after being left outside during a hailstorm.

_________5. A company faces significant losses after electrical equipment is damaged as a result of a power surge.

_________6. A manufacturing company faces a loss in income when operations have to be shut down for over a week following a storm.

_________7. A steam boiler explodes, causing significant damage to a production line.

Directions: State whether each loss would be covered by Additional Coverage – Collapse; Additional Coverage – Limited Coverage For "Fungus," Wet Rot, Dry Rot, And Bacteria; or one of the three Coverage Extensions listed on the Causes of Loss – Special Form.

1. Personal property left outside the building is damaged following a building collapse.

   Covered **Not covered**

2. It is determined that a building collapsed because it was constructed from defective materials.

   Covered **Not covered**

3. A building's roof collapses due to the weight of water from a torrential downpour.

   Covered **Not covered**

4. A business owner suspects that there may be mold present after a recent hurricane. She wants to pay an inspector to do initial mold testing.

   Covered **Not covered**

5. An insured files a claim for the cost of tearing out a portion of a building in order to gain access to mold that was caused by a covered cause of loss.

   Covered **Not covered**

6. A property owner has reason to believe there may still be fungus present following the completion of a recent removal and restoration, so testing needs to be performed.

   Covered **Not covered**

7. A shipment of product is damaged after a delivery truck (owned by the company) is involved in a vehicle collision.

   Covered **Not covered**

8. An insured's building has sustained water damage and he needs to tear out a portion of the building in order to access the source of the damage.

   Covered **Not covered**

9. After finding the source of the damage, the insured needs to replace the defective plumbing system.

   Covered **Not covered**

Section 4: Basics of Time Element Insurance

Section Goal

In this lesson, we will study time element coverages that deal with financial loss that results when a covered peril causes an insured's business to have a loss of revenues—either completely, or partially. The term "time element" is used because the dollar amount of the loss is dependent on the length of time the business is closed, or impaired during restoration.

How to recognize the appropriate method of time element coverage for a business will be discussed at great length in this chapter. We will also discuss the best applications of the Business Income (And Extra Expense) Coverage Form and the Extra Expense Coverage Form.

Learning Objectives

- *Demonstrate how requirements for time element insurance can affect coverage.*
- *Explain how the terms "business income," "extra expense," and "period of restoration" relate to time element coverage.*
- *Given a description of a business, recommend the most appropriate method of time element coverage.*
- *Given a loss situation, explain how extra expense losses are paid.*
- *Describe how dependent property exposures can impact business income.*

Introduction to Basics of Time Element Insurance

Most businesses understand the importance of insuring their tangible property against potential loss. But in order to cover operating expenses and income losses in the event certain catastrophes lead to the temporary closure of a business, there's another critical safeguard to consider—time element insurance.

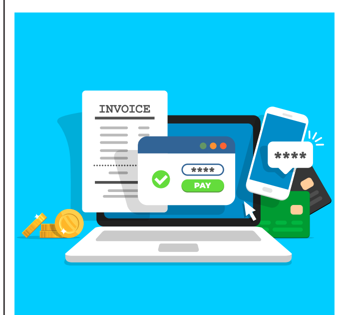
Time element exposures occur when there is a loss of income or increase in operating expenses that result due to a direct loss from a peril, and a business interruption occurs. Loss of business income, extra expense, and related exposures are considered "time element" because the dollar amount of the loss is dependent on the length of time the business is closed or impaired during restoration. However, the terms "time element," "business income," and "business interruption" are often used interchangeably when describing the policies being offered. Different insurers generally use one term or another, depending on their product offerings.

The Purpose of Time Element Insurance

The purpose of time element insurance is to reimburse a business's continuing expenses and loss of net profits due to a direct loss from an insured peril. Think of it as disability insurance for a business. The goal is to provide an uninterrupted flow of income and an appropriate amount of money for a sufficient length of time.

Suffering a direct loss is bad enough. To further complicate the situation, direct losses almost always include numerous other situations that can hamper a business's ability to run smoothly:

Table: 4.1

Common Time Element Exposures		
Loss of profits	A business may not be able to generate a profit when its operations are interrupted.	
Continued expenses	Mortgage payments/rent, payroll, taxes, insurance premiums, etc., continue, even though the business is interrupted.	
Extra expenses	Some businesses, such as newspapers, banks, law firms, doctors, hospitals, and insurance agencies, cannot afford to be interrupted, even if property has been damaged or destroyed. They must find a way to stay open for business at all costs. In this case, extra expenses might include the costs of moving to a temporary location, leasing equipment, increasing advertising, etc.	

Note: Service-oriented businesses are more susceptible to extra expense losses than many other types of businesses.

Basic Time Element Concepts

Learning Objective

- *Demonstrate how requirements for time element insurance can affect coverage.*

Requirements for a Time Element Loss

As with any policy, there are certain things that must occur for a time element loss to be covered. They are:

- The property must sustain direct damage.
- The damage must be attributable to a covered cause of loss.
- The damage must occur at the described premises.
- The business has to suspend operations and/or incur extra expenses.
- The business must suffer actual financial loss during the period of restoration.

In addition to these requirements, the following common concepts apply, regardless of the type of form used:

Policies Pay the Insured on an "Actual Sustained Loss" Basis

The insurance company will reimburse only for what the business would have earned had no loss occurred. It is up to the insured to prove the amount of the loss by showing the insurer its past records and future income projections.

Due Diligence

The insured must do everything to restore the damaged property as soon as possible. The policy will only pay until the time the property should be repaired with reasonable speed.

Payments Do Not Stop When the Policy Expires

The policy will continue to pay until the premises is restored or until the limit is exhausted, whichever comes first.

The Amount of Insurance Depends on Time and Money

When setting the limit of insurance, the insured must take into account the maximum possible shutdown time. Factors such as weather, availability of construction materials, and replacement machinery and parts must be considered. Additionally, the insured must consider the possibility that a loss will occur at the time of the year when it earns most of its money (seasonal fluctuations).

Knowledge Check

1. Ginger's Sweets holds a Commercial Property Policy and Time Element Policy through your agency. The kitchen and the front of the store were damaged in a fire, forcing the store to close while repairs are completed. The store will need to be closed through the winter holidays (one of the busiest seasons of the year), resulting in a significant loss of income. If Ginger submits a claim, will the Time Element Policy respond? Explain why or why not.

2. If Ginger is eligible to submit a claim, what responsibilities will Ginger have to ensure her claim is paid out properly?

Business Income (And Extra Expense) Coverage Form

Learning Objective

- *Explain how the terms "business income," "extra expense," and "period of restoration" relate to time element coverage.*

Now that you understand what qualifies as a time element loss, we will look at one of the most common time element policies, The Business Income (And Extra Expense) Coverage Form (CP 00 30).

COMMERCIAL PROPERTY
CP 00 30 10 12

BUSINESS INCOME (AND EXTRA EXPENSE) COVERAGE FORM

Various provisions in this policy restrict coverage. Read the entire policy carefully to determine rights, duties and what is and is not covered.

Throughout this policy, the words "you" and "your" refer to the Named Insured shown in the Declarations. The words "we", "us" and "our" refer to the company providing this insurance.

Other words and phrases that appear in quotation marks have special meaning. Refer to Section **F.** Definitions.

A. Coverage

1. Business Income

Business Income means the:

a. Net Income (Net Profit or Loss before income taxes) that would have been earned or incurred; and

b. Continuing normal operating expenses incurred, including payroll.

For manufacturing risks, Net Income includes the net sales value of production.

Coverage is provided as described and limited below for one or more of the following options for which a Limit Of Insurance is shown in the Declarations:

(1) Business Income Including "Rental Value".

(2) Business Income Other Than "Rental Value".

(3) "Rental Value".

If option **(1)** above is selected, the term Business Income will include "Rental Value". If option **(3)** above is selected, the term Business Income will mean "Rental Value" only.

If Limits of Insurance are shown under more than one of the above options, the provisions of this Coverage Part apply separately to each.

We will pay for the actual loss of Business Income you sustain due to the necessary "suspension" of your "operations" during the "period of restoration". The "suspension" must be caused by direct physical loss of or damage to property at premises which are described in the Declarations and for which a Business Income Limit Of Insurance is shown in the Declarations. The loss or damage must be caused by or result from a Covered Cause of Loss. With respect to loss of or damage to personal property in the open or personal property in a vehicle, the described premises include the area within 100 feet of such premises.

With respect to the requirements set forth in the preceding paragraph, if you occupy only part of a building, your premises means:

(a) The portion of the building which you rent, lease or occupy;

(b) The area within 100 feet of the building or within 100 feet of the premises described in the Declarations, whichever distance is greater (with respect to loss of or damage to personal property in the open or personal property in a vehicle); and

(c) Any area within the building or at the described premises, if that area services, or is used to gain access to, the portion of the building which you rent, lease or occupy.

2. Extra Expense

a. Extra Expense Coverage is provided at the premises described in the Declarations only if the Declarations show that Business Income Coverage applies at that premises.

b. Extra Expense means necessary expenses you incur during the "period of restoration" that you would not have incurred if there had been no direct physical loss or damage to property caused by or resulting from a Covered Cause of Loss.

We will pay Extra Expense (other than the expense to repair or replace property) to:

(1) Avoid or minimize the "suspension" of business and to continue operations at the described premises or at replacement premises or temporary locations, including relocation expenses and costs to equip and operate the replacement location or temporary location.

CP 00 30 10 12 © Insurance Services Office, Inc., 2011 Page 1 of 9

The Insuring Agreement of CP 00 30 begins by stating, *"We will pay for the actual loss of business income you sustain due to the necessary 'suspension' of your 'operations' during the 'period of restoration.'" The "suspension" must be caused by direct physical loss of or damage to property at the premises described in the Declarations and for which a business income limit of insurance is shown in the Declarations.*

The Insuring Agreement explains that *"the loss or damage must be caused by or result from a covered cause of loss. With respect to loss of or damage to personal property in the open or personal property in a vehicle, the described premises include the area within one hundred feet of such premises."*

Business Income

To better understand the scope of the Insuring Agreement, we must first define "business income." **Business income** consists of two factors:

1. The net income (net profit or loss before taxes) that would have been earned or incurred

   AND

2. Continuing normal operating expenses (including payroll)

The process of determining an organization's net income requires the business owner to report all gross income, less the cost of goods and overhead.

In addition to payroll, the business should consider all normal operating expenses, which would include:

- Mortgage, rent, and lease payments
- Taxes and loan payments that would be due during the covered period
- Payroll taxes
- Employee benefits
- Utilities
- Insurance
- Licenses

Extra Expense

While the normal operating expenses are those costs that the insured would continue to pay had no loss occurred, **"extra expense"** refers to those necessary expenses incurred during the "period of restoration" that would NOT have been incurred if there had been no direct physical loss or damage to the property. This can include relocation costs if the business must move to a new or temporary location; equipment rentals; or the cost of overtime of temporary labor that is required during the transition.

The policy language for extra expense coverage states that the insurance company will pay for extra expenses incurred:

- to avoid or minimize the "suspension" and to continue operations;
- to minimize the suspension of operations if the business cannot continue operating; or
- to repair or replace property to the extent the expense reduces the business income loss.

Within the Business Income (And Extra Expense) Coverage form (CP 00 30), extra expenses are not a separate or additional limit of insurance.

Period of Restoration

The Insuring Agreement for both Business Income and Extra Expense states that losses are paid during the period of restoration. The **period of restoration** for business income starts seventy-two hours after the loss, and it ends when the business operations are restored, restored at a new location, or after a reasonable time to complete repairs or replace the property. The period of restoration, as it is defined, controls two risks for the insurance company. First, the seventy-two-hour waiting period minimizes small business income losses, and secondly, setting the expectation for a reasonable timeframe for repairs prevents the insured from dragging their feet in reopening the business.

It's worth noting that the waiting period can be reduced to twenty-four hours or to no waiting period if the insured purchases a separate endorsement. It's also worth remembering that the period of restoration does not include any increased period of time required due to the enforcement of an Ordinance Or Law that regulates the construction or the obligations of any insured to others to test for, monitor, clean up, or remove pollutants. In addition, the expiration of the policy does not cut short the period of restoration. So even if the loss occurred shortly before the policy expiration, coverage continues until the business reopens.

There is no waiting period for extra expense because it's in everyone's best interest to make sure that the business operations can resume as quickly as possible.

Check-In

Directions: Match the term to the correct definition.

A. Business Income **B.** Extra Expenses **C.** Period of Restoration	______ Begins 72 hours after a loss and ends when business operations are restored, restored at a new location, or after a reasonable time to complete repairs or replace the property
	______ Net income (net profit or loss) and continuing expenses, including payroll
	______ Expenses incurred during the period of restoration that would NOT have been incurred if there had been no direct physical loss or damage to the property

Additional Limitation – Interruption Of Computer Operations

A limitation addressing electronic data applies to both business income and extra expense. This coverage is only provided in the Additional Coverage – Interruption Of Computer Operations.

In the next few pages, we will discuss the following Additional Coverages related to business income and extra expense risks:

- Civil Authority
- Alterations And New Buildings
- Extended Business Income
- Interruptions Of Computer Operations

Additional Coverages

Civil Authority

When a business is shut down due to a covered cause of loss occurring within one mile of the insured's premises, the policy includes coverage for business income and extra expense loss the insured suffers due to the actions of a civil authority.

After the 72-hour waiting period, and as long as damage is caused by a covered cause of loss, the policy will pay for up to four weeks of business income loss to the insured. This is not additional insurance.

Note that the 72-hour waiting period and the four-week limitation do not apply to extra expense losses due to an interruption caused by a civil authority. The four-week limitation period may be increased with the **Civil Authority Change(s) (CP 15 32)** endorsement.

Example

A recent tornado has caused extensive damage to the downtown area of Springfield, including the highway overpass that goes over a busy retail district. Embers Brewery is located on the outer edges of the downtown retail district and was fortunate not to suffer any damages to their property.

However, Springfield authorities closed off the streets leading in and out of the damaged area. Access to the brewery was denied for two weeks while repairs were made to the overpass. As a result, the brewery lost revenue due to turning away business and had to engage in over-time production once they were allowed back into their facility.

Embers' claim for loss of income would be covered by the Civil Authority Additional Coverage because:

- The denial of access was due to physical damage to property within one mile of the brewery.
- The physical damage was due to a covered cause of loss.
- The period of restoration was within the four-week length of time that coverage applies under Civil Authority.

Alterations And New Buildings

The Business Income (And Extra Expense) Coverage Form covers the business income and extra expense loss when the opening of a newly constructed or altered building has been delayed due to a direct loss resulting from a covered cause of loss. Payment is made for the loss attributable to the time period between when the building should have opened and when it actually opened. This is not additional insurance.

Extended Business Income

Extended Business Income coverage pays after a business has already reopened after a loss. Upon reopening, business operations may not be at the same level as they were prior to the loss. Often there is a gap between what the insured was earning just before the loss and what he or she earns during the first few weeks business is resumed.

Example

Manolo's Baked Goods is a wholesale bakery that supplies breads, pastas, and desserts to local restaurants. After a fire damaged their building on March 1st, Manolo's was closed for four months while the property underwent repairs. During this period of restoration, Manolo's clients had to seek new suppliers for their baked goods.

Although Manolo's was able to resume operations on June 5th, they were unable to return to their projected level of sales for another three months. The unendorsed Business Income (And Extra Expense) Coverage Form will continue to provide coverage for business income and extra expense for up to 60 days after the period of restoration ends.

Extended Business Income coverage provides coverage to help the insured get back to where operations were prior to the loss. This extended coverage is limited to 60 days. This time period may be extended (up to 730 days) when the Extended Period Of Indemnity option is selected. This will be discussed later.

Interruption Of Computer Operations

There is a $2,500 limit on all losses sustained and expenses incurred from an interruption of computer operations within one policy year. This coverage it is subject to numerous restrictions and to named perils only, depending on which Causes of Loss form is selected.

Knowledge Check

Bert's Bookbinding provides printing services to local schools and businesses. On July 5th, a portion of the building caught fire, forcing the business to shut down for three weeks, resulting in $80,000 of lost revenue.

Although the building was repaired by July 27th, Bert was notified that a key piece of machinery would not be replaced until October. In order to expedite his reopening in time for the new school year, Bert paid an additional $10,000 in order to secure a replacement for the machinery by August 5th. He then spent $5,000 in an advertising blitz to notify all new and existing clients that they would be back open for business on August 9th.

Since many of Bert's clients had to go elsewhere for their printing needs, Bert still suffered $100,000 in lost revenue during August and September.

Bert's Bookbinding has a Business Income (And Extra Expense) Coverage Form with a $500,000 time element limit.

Directions: Explain how the Business Income (And Extra Expense) Coverage Form might respond to Bert's losses.

The Business Income (And Extra Expense) Coverage Form is added to a company's existing property insurance program because the coverage is triggered whenever a direct physical loss occurs. Understanding the types of time element losses that can be covered are important considerations that every business must make when determining the amount of time element coverage needed and the methods in which coverage may be applied.

Time Element Coverage Options

Learning Objective

- *Given a description of a business, recommend the most appropriate method of time element coverage.*

Methods for Writing Time Element Insurance

There are several issues to consider when selecting the appropriate form and coverage options for business income and extra expenses.

1. What limits of liability does your insured need for time element insurance?
2. Should you write time element coverage with or without coinsurance?
3. Is the Monthly Limit Of Indemnity option needed?
4. Is the Business Income Agreed Value option needed?
5. Is the Extended Period Of Indemnity option needed?

What Limits of Liability Does Your Insured Need for Time Element Insurance?

In determining how much business insurance to obtain:

- Calculate and total the anticipated net income and operating expenses (including payroll) for the next 12 months.
- Estimate the maximum possible shutdown time.
- Anticipate any bottlenecks in operations—both internal and external.
- Determine how much it will cost to satisfy the coinsurance requirement.
- Consider the seasonal fluctuations in the business.

Coinsurance

The unmodified Business Income (And Extra Expense) Coverage Form includes a Coinsurance condition. Coinsurance for this form of insurance operates in a manner similar to the property coinsurance calculation. The insured is required to have a minimum of 50 percent coinsurance, and may use 60%, 70%, 80%, 90%, 100%, or 125%.

The internal calculations of coinsurance, and the setting of adequate limits to comply with this Coinsurance clause, however, are beyond the scope of this course.

There are four alternatives to the coinsurance requirement: use no coinsurance, the Maximum Period Of Indemnity, the Monthly Limit Of Indemnity, and Business Income Agreed Value.

Should You Write Time Element With or Without Coinsurance?

Use No Coinsurance

The Commercial Lines Manual shows that an insured could write a limit of business income insurance with no coinsurance percentage applicable. However, most insurance companies are reluctant to do this, and when they do write it, the normal rate is increased significantly.

Maximum Period Of Indemnity Optional Coverage

If the insured elects the Maximum Period Of Indemnity option, coverage begins after a 72-hour waiting period. Loss, however, is covered only for 120 days or until the limit is exhausted, whichever comes first. Therefore, the insured needs to be absolutely sure the business can be up and running again within 120 days.

Tip: The Maximum Period Of Indemnity option is best for those businesses that do not require any specialized facilities or equipment to operate. Since external economic factors may impact supply chains and construction availability, this option is most ideal for a tenant that can easily re-open in a new location.

Monthly Limit Of Indemnity Optional Coverage

As with the previous option, under the Monthly Limit Of Indemnity option, coverage starts after a 72-hour waiting period. A maximum payment for any 30 consecutive days is expressed as a fraction of the business income limit. These fractions are 1/3, 1/4, and 1/6, and the fraction chosen is shown on the Declarations page. This does not mean three months, four months, or six months worth of coverage. Rather, it means that the most the insured can get for any 30-day period would be a fraction of the business income limit shown on the Declarations page.

Example

Oasis Furniture Designers, Inc., has a Business Income limit of $200,000 with a ¼ Monthly Limit Of Indemnity option.

After a covered loss, Oasis may receive a payment for whatever loss has been incurred that month. However, the loss payment for any 30-day period would never exceed $50,000 or 1/4 of the $200,000 Business Income limit.

The following table provides a detailed account of the insured's business income loss and potential coverage amounts:

Table: 4.2

Monthly Limit Of Indemnity			
Period	**Loss**	**Paid**	**Reason**
First 30 days	$65,000	$50,000	1/4 of $200,000 (the maximum available)
Second 30 days	$40,000	$40,000	Less than $50,000
Third 30 days	$45,000	$45,000	Less than $50,000
Fourth 30 days	$50,000	$50,000	Equal to $50,000
Fifth 30 days	$40,000	$15,000	$15,000 (the remaining limit)
Sixth 30 days	$10,000	$0	Limit is exhausted

Tip: The Monthly Limit Of Indemnity option is best for those businesses that have historically shown consistency in their monthly revenues and expenses. This option is not recommended for retail stores, restaurants, or hospitality-based risks.

Business Income Agreed Value Optional Coverage

This approach is an agreement between the insurance company and the named insured regarding the values and calculations selected. The agreed value option suspends the Coinsurance condition as long as the insured carries a limit of insurance equal to or greater than the agreed value.

Certain conditions apply, including:

- A business income worksheet is required;
- Failure to submit a new worksheet causes the Coinsurance clause to be reinstated; and
- The insured is penalized if the Business Income limit is less than the agreed value.

Extended Period Of Indemnity Optional Coverage

For many insureds, it can take longer than 30 days after reopening to return the stream of income back to pre-loss conditions.

The Extended Period Of Indemnity option allows an insured to change the 60-day extended business income coverage (discussed earlier in the Additional Coverages section). The 60-day extension can be replaced, and options are available in increments up to 730 days.

In selecting an Extended Period Of Indemnity, two conditions apply. This coverage option:

1. Cannot be used with the no coinsurance option; and
2. Cannot be used with the Maximum Period Of Indemnity option.

Knowledge Check

Nancy's Notions is written on a Business Income (And Extra Expense) Coverage Form with the Monthly Limit Of Indemnity Optional Coverage. The amount of insurance is $80,000 with a ¼ monthly limit.

Nancy had a loss and was out of business for several months. Her loss of profit and continuing expenses were as follows:

- 1st month – $22,000
- 2nd month – $25,000
- 3rd month – $12,000
- 4th month – $15,000
- 5th month – $18,000

1. How much will Nancy's policy pay each month for this loss?

2. How much would her policy have paid if it had been written with the Maximum Period Of Indemnity Optional Coverage?

Extra Expense Coverage Form (CP 00 50)

Learning Objective

- *Given a loss situation, explain how extra expense losses are paid.*

COMMERCIAL PROPERTY
CP 00 50 10 12

EXTRA EXPENSE COVERAGE FORM

Various provisions in this policy restrict coverage. Read the entire policy carefully to determine rights, duties and what is and is not covered.

Throughout this policy, the words "you" and "your" refer to the Named Insured shown in the Declarations. The words "we", "us" and "our" refer to the company providing this insurance.

Other words and phrases that appear in quotation marks have special meaning. Refer to Section **D.** Definitions.

A. Coverage

We will pay the actual and necessary Extra Expense you sustain due to direct physical loss of or damage to property at premises which are described in the Declarations and for which an Extra Expense Limit Of Insurance is shown in the Declarations. The loss or damage must be caused by or result from a Covered Cause of Loss. With respect to loss of or damage to personal property in the open or personal property in a vehicle, the described premises include the area within 100 feet of such premises.

With respect to the requirements set forth in the preceding paragraph, if you occupy only part of a building, your premises means:

a. The portion of the building which you rent, lease or occupy;

b. The area within 100 feet of the building or within 100 feet of the premises described in the Declarations, whichever distance is greater (with respect to loss of or damage to personal property in the open or personal property in a vehicle); and

c. Any area within the building or at the described premises, if that area services, or is used to gain access to, the portion of the building which you rent, lease or occupy.

1. Extra Expense

Extra Expense means necessary expenses you incur during the "period of restoration" that you would not have incurred if there had been no direct physical loss or damage to property. Coverage pertains to expenses (other than the expense to repair or replace property) which are incurred to:

a. Avoid or minimize the "suspension" of business and to continue "operations" at the described premises or at replacement premises or temporary locations, including relocation expenses and costs to equip and operate the replacement location or temporary location.

b. Minimize the "suspension" of business if you cannot continue "operations".

We will also pay Extra Expense to repair or replace property, but only to the extent it reduces the amount of loss that otherwise would have been payable under this Coverage Form.

2. Covered Causes Of Loss, Exclusions And Limitations

See applicable Causes Of Loss form as shown in the Declarations.

3. Additional Limitation – Interruption Of Computer Operations

a. Coverage for Extra Expense does not apply when action is taken to avoid or minimize a "suspension" of "operations" caused by destruction or corruption of electronic data, or any loss or damage to electronic data, except as provided under the Additional Coverage, Interruption Of Computer Operations.

b. Electronic data means information, facts or computer programs stored as or on, created or used on, or transmitted to or from computer software (including systems and applications software), on hard or floppy disks, CD-ROMs, tapes, drives, cells, data processing devices or any other repositories of computer software which are used with electronically controlled equipment. The term computer programs, referred to in the foregoing description of electronic data, means a set of related electronic instructions which direct the operations and functions of a computer or device connected to it, which enable the computer or device to receive, process, store, retrieve or send data.

c. This Additional Limitation does not apply when loss or damage to electronic data involves only electronic data which is integrated in and operates or controls a building's elevator, lighting, heating, ventilation, air conditioning or security system.

CP 00 50 10 12 **Page 1 of 5**

The Purpose of the Extra Expense Coverage Form

The purpose of the Extra Expense Coverage Form (CP 00 50) is to provide loss payments to businesses that cannot, due to their nature, afford to shut down for any length of time.

These are typically service-oriented businesses. Examples include newspapers, hospitals, accounting offices, law firms, insurance agencies, etc. For these types of businesses, the CP 00 50 is most appropriate.

Extra expenses are the additional expenditures that a business would not normally have, which are incurred during the period of restoration following a covered loss. The policy will pay for the following types of expenses:

Note: This definition of "extra expense" coincides with the definition found in the Business Income (And Extra Expense) Coverage Form.

- **To avoid or minimize the suspension and to continue operations:** a service-oriented business such as a hospital, newspaper, accounting office, law firm, or insurance agency leases a temporary relocation to keep the business running

- **To minimize the suspension of operations if the business cannot continue operations:** payments of overtime to repair crews and movers to help set up a new business location after a loss
- **To repair or replace property to the extent the expense reduces the business income loss:** lease or rental of temporary equipment, or repair/replacement of equipment needed to keep the business running

Extra Expense Coverage Form Provisions

Period of Restoration

In the Extra Expense Coverage Form, the period of restoration begins with the date of direct physical loss at the described premises. There is no "waiting period" or deductible. Extra expense loss payments begin immediately.

Additional Coverages and Extensions

The Extra Expense Coverage Form includes coverage for:

- Alterations And new buildings
- Civil Authority
- Newly Acquired Locations
- Interruption Of computer operations

These coverages are similar to the provisions found in the Business Income (And Extra Expense) Coverage Form we have discussed. Numerous restrictions apply to interruption of computer operations due to covered causes of loss.

Special Loss Payment Provisions

The Extra Expense Coverage Form contains certain special limits on loss payment. What the policy will pay is based on the length of the shutdown and the percentages shown on the Declaration page for the extra expense coverage.

To determine the limit of liability available in a covered loss, the extra expense limit, shown on the Declarations page, is multiplied by the percentage which corresponds to the time frame of the period of restoration. The most common percentages in use are shown in the table below.

Table: 4.3

Period of Restoration	Percentage Option
30 days or less	40 percent
31–60 days	80 percent
More than 60 days	100 percent

There is a simple three-step process used to determine how coverage applies:

Step #1: Determine the length of the shutdown.

Step #2: Based on step #1, choose the appropriate % from the Declarations:
less than 30 days, use first % shown; 31–60 days, use the second % shown.

Step #3: Multiply the limit of insurance by the % determined in step #2. This is the amount available to pay the loss.

Example

Imagine a small insurance agency has a policy that includes $100,000 in extra expense coverage. The agency suffers a covered loss and must open immediately in another location until repairs are completed.

Table 4.4, based on an extra expense limit of $100,000, offers a summary of how the loss payment provision works.

Table: 4.4

Period of Restoration	Percentage Option	Amount Available
30 days or less	40 percent	$40,000 or 40 percent of $100,000
31–60 days	80 percent	$80,000 or 80 percent of $100,000
More than 60 days	100 percent	$100,000

Knowledge Check

Renaissance Printers has recently suffered a covered wind loss that prompted a 28-day shutdown. During the shutdown, Renaissance incurred $95,000 in extra expenses to continue operations. The insured carried a $200,000 Extra expense limit with 40%-80%-100% shown on the Declarations. How much did Renaissance's policy pay?

It is important to remember that the Extra Expense form, CP 00 50, is essentially a stand-alone time element form—meaning that unlike the Business Income form, CP 00 30, there is no coverage for the day-to-day operating expenses. This coverage form is used for those organizations that are unable to sustain any kind of shutdown.

Dependent Properties

Learning Objective

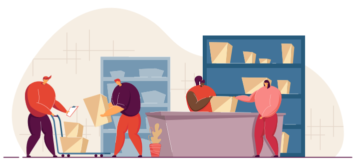
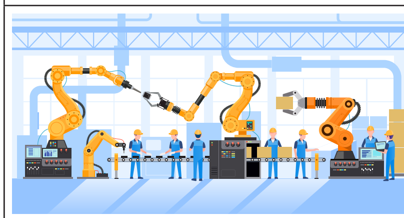
- *Describe how dependent property exposures can impact business income.*

Contributors, Recipients, Manufacturers, and Leaders

There are many businesses that depend heavily on another enterprise to remain operational at normal levels. If the other enterprise was to be shut down, the first business would be affected. These enterprises that affect a business are called **dependent properties** and are classified as one of the following: contributors, recipients, manufacturers, or leaders.

Coverage for Dependent Properties must be scheduled on the **Business Income from Dependent Properties – Broad Form (CP 15 08)** or **Business Income from Dependent Properties – Limited Form (CP 15 09).**

Table: 4.5

Dependent Properties	Description	Example
Contributors		
	Delivers materials and services to your business	A company supplies raw materials to a manufacturer. If the raw materials company were to be shut down temporarily due to a fire, the manufacturer would experience a production delay, resulting in a loss of business income.
Recipients		
	Accepts your products or services	A plastics manufacturer has a contract with a toy company that accounts for 80 percent of its business. If the toy company is destroyed by a tornado, the plastics manufacturer would experience a business income loss.
Manufacturers		
	Produces products for delivery to a business's customers	The manufacturer that produces the paper sold by Dinder Mufflin has to shut down due to a loss. Dinder Mufflin now faces a business income loss due to lack of inventory.
Leaders		
	Attracts customers to your business	Restaurants sprout around a movie theater to attract pre- and post-movie diners. But if the cinema burns down, the number of people patronizing these restaurants could decrease, and the restaurants would suffer a loss of income.

Additional Considerations

When it comes to dependent properties, there are several additional considerations involved, including:

- With respect to contributing locations, services do not include water, communication, or power supply services;
- The insured must use any available source of materials or outlets for products; and
- The Ordinance Or Law exclusion applies.

Knowledge Check

1. A plant that produces medication for a pharmaceutical company is shut down after damage from a hurricane. What type of dependent property is described here, and how might this loss impact the pharmaceutical company?

2. A stadium hosts home games for a popular local baseball team. After the games, fans flock to the bars and restaurants in the neighborhood. The stadium is badly damaged in a fire, and the team temporarily relocates to a different playing field across town. What type of dependent property is described here, and how might this loss impact the bars and restaurants in the area?

3. A caterer has an exclusive contract with a nearby art museum, and their primary source of income comes from events hosted at the museum. Unfortunately, the museum had to shut down for two months due to extensive tornado damage. What type of dependent property is described here, and how might this loss impact the caterer?

In order for Dependent Property coverage to apply, the business would need to have coverage for the peril that actually caused damage to the dependent location. For example, if a business significantly relies on a manufacturing plant that was located near an area with a high flood potential, that policyholder may need to consider the value of buying flood coverage. A similar thought process might be applied to businesses located in earthquake risk areas as well. Additional considerations must be made for operations that rely heavily on international trade.

Summary

Time element insurance responds to claims of monetary loss due to the inability to use property that has been physically damaged. The amount of revenue lost is directly correlated with the time your property cannot be used, hence the “time element.”

While the terms are often used interchangeably, it is important to understand that “business income” and “extra expense” are two distinct types of time element coverages which may be offered in a single policy, or as stand-alone coverages. “Business Income” refers to the company’s net income plus their normal, continuing, everyday operating expenses. “Extra expense” refers to those costs that would not have otherwise have been incurred were there no physical damage to the property (such as temporary rentals and overtime costs).

In order for a time element loss to be covered, the property must sustain direct damage by a covered cause of loss, which results in a suspension of operations leading to actual financial loss during the “period of restoration.” The period of restoration begins 72 hours after the direct physical loss and ends when the business operations have been relocated or reasonably restored. This 72-hour waiting period is considered to be a time deductible which helps to minimize small claims. An Extended Period Of Indemnity option may be endorsed onto the policy for those businesses that would need additional time to win back clientele to their normal operating levels after the period of restoration has ended.

The most common method of writing time element insurance is through the Business Income (And Extra Expense) Coverage Form (CP 00 30). Similar to the Building And Personal Property Coverage Form, the Business Income policy is subject to a Coinsurance provision. However, coinsurance can be waived by selecting a Maximum Period Of Indemnity option, a Monthly Limit Of Indemnity option, or a Business Income Agreed Value option.

Extra expense insurance is not subject to any waiting period, as it is beneficial for both the policyholder and the insurance company to begin paying extra expenses immediately, as these expenses work to reduce the time necessary to resume operations. For those operations that are unable to withstand any type of suspension, the value of having Extra expense coverage may be more significant than the business income itself. These businesses may choose the Extra Expense Coverage Form (CP 00 50).

Most businesses depend on third parties to successfully operate. This dependence may be on the goods and materials provided, the services contracted, or even the nearby businesses that drive customers to the policyholder’s location. If a potential shutdown at any of these dependent properties were to leave the insured vulnerable to financial loss, the policy must be endorsed to include coverage for the dependent locations.

Having the appropriate time element coverages in place is a necessity for any business because it can make the difference between a business closing its doors to rebuild or closing its doors permanently.

Resources

Important concepts related to the Learning Objectives in this section are summarized in separate videos. Online participants can use the links to access the videos. Classroom learners can access the videos at RiskEducation.org/IPresources.

▶	Business Income and Extra Expense
▶	Business Income Options
▶	Extended Period Of Indemnity
▶	Dependent Properties

Section 4 Self-Quiz

Directions: Use the terms in the word bank to fill in the blanks. Terms may be used only once, and not all terms will be used.

72	**suspend**	**extra expenses**	**covered cause of loss**
Maximum Period	**four**	**$2,500**	**one**
direct	**leader**	**electronic data**	**period of restoration**
$5,000	**120**	**described**	**60**
Extended Period	**coinsurance**	**contributor**	**reasonable**
manufacturer	**Monthly Limit**	**recipient**	**business income**

1. In order for a time element loss to be covered, the property must sustain ______________________ damage which occurs at the ______________________ premises, and the damage must be attributable to a(n) ______________________. Additionally, the business has to ______________________ operations and/or incur extra expenses and must suffer an actual financial loss during the ______________________.

2. ______________________ are costs incurred during the period of restoration that would NOT have been incurred if there had been no direct physical loss or damage to the property.

3. The term, ______________________, refers to the net income of a business (net profit or loss) and continuing expenses, including payroll.

4. The period of restoration begins ______________________ hour(s) after a loss occurs and ends when business operations are restored, restored at a new location, or after a ______________________ amount of time to complete repairs or replace property.

5. The Additional Coverage – Civil Authority will pay for up to ______________________ week(s) of business income loss to the insured when a business needs to be shut down due to a covered cause of loss occurring within ______________________ mile(s) of the insured's premises.

72	suspend	extra expenses	covered cause of loss
Maximum Period	four	$2,500	one
direct	leader	electronic data	period of restoration
$5,000	120	described	60
Extended Period	coinsurance	contributor	reasonable
manufacturer	Monthly Limit	recipient	business income

6. The Additional Coverage – Extended Business Income provides coverage for reduced income that can occur after a business has reopened. It is limited to ________________________________ day(s) of coverage unless the ________________________________ Of Indemnity option is selected.

7. Coverage for business income and extra expenses related to ________________________________ is only provided through the Additional Coverage – Interruptions of Computer Operations and has a limit of ________________________________ per year.

8. Under the ________________________________ Of Indemnity Optional Coverage, loss is covered only for a period of ________________________________ day(s) or until the limit is exhausted, whichever comes first.

9. With the ________________________________ Of Indemnity Optional Coverage, the maximum amount an insured can receive in any 30-day period is a specified fraction of the Business Income limit shown on the Declarations page.

10. The Business Income Agreed Value option suspends the ________________________________ condition as long as the insured carries a limit of insurance equal to or greater than the agreed value.

11. A(n) ________________ accepts the products and services of a business.

12. A(n) ________________ attracts customers to a business.

13. A(n) ________________ delivers materials and/or services to a business.

14. A(n) ________________ produces products for delivery to a business's customers.

Directions: Select whether the statement is True or False.

1. The Extended Period Of Indemnity option can be added onto the no coinsurance option or the Maximum Period Of Indemnity option.

   True **False**

2. A 72-hour waiting period applies to extra expense loss payments.

   True **False**

3. A small accounting firm has a policy that includes extra expense coverage. After suffering a covered cause of loss, the firm needs to reopen immediately in another location. The restoration period will take 45 days to complete. The firm will be covered for 80% of its total policy limit.

   True **False**

4. A dependent property for a business suffers loss that results in a temporary shutdown. This will more than likely result in a loss of income for the connected business.

   True **False**

5. The Ordinance Or Law exclusion does not apply to dependent properties.

   True **False**

Section 5: Basics of Commercial Inland Marine Insurance

Section Goal

This section will review exposures regarding property in transit, bailee (care, custody, or control), and specialized property subject to Commercial Inland Marine consideration. It will also cover some of the key features and advantages of this type of insurance.

Learning Objectives

- *Identify the types of property considered eligible for commercial inland marine insurance coverage.*
- *Differentiate between filed and non-filed commercial inland marine classes.*
- *Explain three exposures that are better addressed as commercial inland marine and the advantages of using commercial inland marine insurance over commercial property insurance.*
- *Identify and briefly explain the conditions and common features of inland marine policies.*

Introduction to the Basics of Commercial Inland Marine Insurance

Understanding the use and purpose of commercial inland marine insurance is important since nearly all businesses have one or more exposures that require this coverage. Not all types of property are eligible, so it is important that commercial inland marine policies are in compliance with the Nationwide Marine Definition adopted by the National Association of Insurance Commissioners (NAIC), which specifies the types of property that may be insured on inland marine and ocean marine insurance forms.

How Commercial Inland Marine Coverage Developed

Commercial inland marine insurance evolved from ocean marine insurance as a result of an expanding America, early in its history. At that time, most goods were shipped by water, and as the country changed, overland methods developed. This resulted in additional exposures involving transit, unnamed locations, and property being portable or unique, which resulted in a change of insurance coverages. Ocean marine underwriters were experienced with these types of risks and readily provided coverage, and from there, inland marine insurance developed as a separate classification of insurance.

Property insurance originated from fire insurance, and by its nature is, for the most part, designed for insuring property at fixed or specific locations. As such, it is subject to rigid rules regarding insuring terms and ratings. Inland marine insurance arose from ocean marine insurance, giving it more freedom and flexibility regarding insuring terms and ratings. This led to conflicts and disputes regarding what types of property would be written under fire insurance and what types would be written under inland marine insurance. The solution was the creation of the Nationwide Marine Definition, which was adopted in 1933, and later modified.

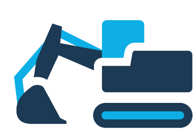
Types of Property Eligible as Commercial Inland Marine

Learning Objective

- *Identify the types of property considered eligible for commercial inland marine insurance coverage.*

Commercial Inland Marine Definition

The Nationwide Marine Definition identifies the following types of property considered to be eligible for commercial inland marine insurance coverage:

Property Type	Description/Example
Imports	Goods or services brought into the country from abroad for sale **Example:** Swiss chocolate sold in the U.S. 
Exports	Goods or services sent abroad for sale **Example:** An American-made car shipped abroad to be sold 
Domestic Shipments	Goods shipped within a country's borders **Example:** Cheddar cheese produced in Wisconsin and shipped to other U.S. states to be sold 
Bridges, Tunnels, and Other Instruments of Transportation and Communication	Property deemed to be instrumental to transportation or communication **Example:** A radio tower 
Commercial Property Floaters	Riders for property that a company doesn't store in a fixed location **Example:** Construction equipment (bulldozers, cranes, etc.) that is moved from one site to another 

Knowledge Check

Directions: List the types of property considered eligible for commercial inland marine coverage. How do these types of property differ from property written under a Commercial Property Policy?

Due to the various types of property that can be written on an inland marine policy, the name of each inland marine policy might differ based on the exact type of business and property that is insured. For example, inland marine insurance is called "bailee's customer insurance" in instances where a business is transporting a customer's property. A "builder's risk policy" covers construction tools and machinery kept at job sites and storage yards.

Most carriers that offer commercial property insurance will offer some types of inland marine coverage, dependent upon the class of business.

Commercial Inland Marine Classes

Learning Objective

- *Differentiate between filed and non-filed commercial inland marine classes.*

Inland Marine Forms Overview

Commercial inland marine risks are comprised of filed and non-filed classes of business as identified under a state's insurance code or law. Filed classes are those that are generally homogeneous in nature, while non-filed classes are those risks that are typically underwritten on a case-by-case basis.

Filed Classes

Filed classes of risks are those for which rules, rates, and forms must be filed by the insurance companies with state regulatory authorities for approval. Risks within a filed class are relatively uniform in nature and have similar exposures.

Examples of Filed Inland Marine Forms

- Accounts Receivable Coverage Form
- Electronic Data Processing Coverage Form
- Camera and Musical Instrument Dealers Coverage Form
- Commercial Articles Coverage Form
- Equipment Dealers Coverage Form
- Film Coverage Form
- Floor Plan Coverage Form
- Jewelers Block Coverage Form
- Mail Coverage Form
- Physicians and Surgeons Equipment Coverage Form
- Signs Coverage Form
- Theatrical Property Coverage Form
- Valuable Papers and Records Coverage Form

Non-filed Classes

Non-filed classes of risks indicate those for which rules, rates, and forms are not subject to filing requirements or uniform standards of application. The classes identified as non-filed have greater variance in the exposures, which makes it difficult to provide uniformity related to coverages and pricing.

Non-filed classes have the ability to address unique or specific exposures on an individual risk basis.

Examples

- Builders Risk Policies
- Contractors Equipment Floaters
- Installation Floaters
- Specialized Computer Policies
- Transportation Policies (Domestic Shipments)
- Transmission Towers
- Bailee Policies (to cover the goods of others in the insured's care, custody or control)

When writing non-filed classes, you must check each carrier's inland marine manuals for the rules, rates, and coverage forms.

Knowledge Check

Directions: Explain the difference between filed and non-filed commercial inland marine classes of risks and give an example of each.

____

____

____

____

____

____

In most cases, the base rates for filed inland marine classes are derived from the rates that apply to standard commercial property coverage and are modified based on the anticipated off-premises exposure. Non-filed classifications allow for greater flexibility in rates and coverage terms. Often times, a carrier may write a particular non-filed class with enough regularity that their rates and coverage forms appear to be standardized.

Reasons for Writing Commercial Inland Marine Insurance

Learning Objective

- *Explain three exposures that are better addressed as commercial inland marine and the advantages of using commercial inland marine insurance over commercial property insurance.*

Limitations of Commercial Property Insurance

Type of Property	CP Limit
Personal Property of Others	$2,500
Outdoor Signs	$2,500
Valuable Papers	$2,500
Property Off Premises	$10,000

Commercial property forms have limitations. With few exceptions, commercial property coverage is limited to designated premises. Commercial property coverage forms also contain internal limitations on payments. The table below shows examples of the limits placed on certain types of property under this coverage.

Exposures

Because of the limitations placed on commercial property insurance, certain exposures, such as those mentioned below, are better addressed through commercial inland marine coverage.

Transportation

Insuring goods in transit is a complex process and requires flexibility in coverage, insuring terms, and the ability to charge the proper premium for the exposure. The hazards vary depending on the type of property being shipped, to what location, by whom, and the type of conveyance used. For example, a trucked shipment of eggs is subject to breakage and spoilage, as compared to pharmaceuticals, where theft would be the concern, compared to a shipment of grain by rail, which has low damageability and high salvage value.

Bailee (Care, Custody, or Control)

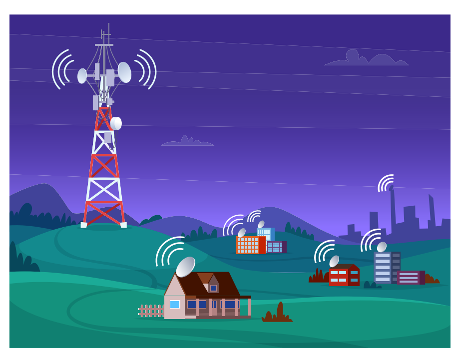
Many businesses serve as a bailee, having property of others in their care, custody, or control on which they perform a process or service. A majority of these businesses will have a transportation exposure since they typically pick up and return their customer's property. In some cases they will need coverage while at locations other than their own, depending on where their work is performed.

An example of this would be a company that repairs industrial machinery—they would go to the customer's site, remove machinery, transport it to their facility to make the repairs, and then return it to the customer. Coverage would be needed from the moment the machinery entered the repair firm's care, custody, or control at the customer's location until it was returned and the service completed. Other examples of businesses with a bailee exposure include dry cleaners, upholsterers, and appliance repair shops.

Specialized or Unusual Property

In general, specialized or unusual types of property do not have the same characteristics or expectation of loss, causing them to lack homogeneous exposures. Commercial inland marine policies can be crafted to meet the coverage needs unique to each.

Examples include bridges, dams, tunnels, pipelines, communication and transmission towers, and loading



bridges/cranes. Other types of property would include machinery and equipment used in the construction, mining, and energy industries.

Check-In

Directions: Match each exposure on the left to the correct example on the right by writing the corresponding letter on the line.

<table>
<tr><td rowspan="3">A. Transportation
B. Bailee
C. Specialized or unusual property</td><td>______ Treon runs an online store for his glass artwork that he ships to his customers across the country.</td></tr>
<tr><td>______ A manufacturing company has constructed a dam to generate electricity for its factory.</td></tr>
<tr><td>______ Lucia owns a dry-cleaning business and also provides summer fur storage for her customers.</td></tr>
</table>

Advantages of Commercial Inland Marine

The advantages of commercial inland marine over commercial property forms include:

- Flexibility in the insuring terms and conditions contained in the policy
- The ability to tailor the policy, allowing an insurance company to offer coverages that better address the exposures as they apply to a specific business

Knowledge Check

Cho owns an upholstery business in which she and her employees pick up furniture at customers' homes, reupholster the items in her facility, and then transport the furniture back to customers' homes.

Directions: Explain to Cho the exposure(s) her business faces, and why it might be advantageous for her coverage to be written using a commercial inland marine form rather than a commercial property form.

Conditions Unique to Inland Marine Coverages

Learning Objective

- *Identify and briefly explain the conditions and common features of inland marine policies.*

While it shares many of the same conditions found in the Commercial Property Conditions form, the Commercial Inland Marine Conditions form has several conditions that are particular to inland marine policies. Let's examine some of these conditions.

COMMERCIAL INLAND MARINE
CM 00 01 09 04

COMMERCIAL INLAND MARINE CONDITIONS

The following conditions apply in addition to the Common Policy Conditions and applicable Additional Conditions in Commercial Inland Marine Coverage Forms:

LOSS CONDITIONS

A. Abandonment

There can be no abandonment of any property to us.

B. Appraisal

If we and you disagree on the value of the property or the amount of loss, either may make written demand for an appraisal of the loss. In this event, each party will select a competent and impartial appraiser. The two appraisers will select an umpire. If they cannot agree, either may request that selection be made by a judge of a court having jurisdiction. The appraisers will state separately the value of the property and amount of loss. If they fail to agree, they will submit their differences to the umpire. A decision agreed to by any two will be binding. Each party will:

1. Pay its chosen appraiser; and
2. Bear the other expenses of the appraisal and umpire equally.

If there is an appraisal, we will still retain our right to deny the claim.

C. Duties In The Event Of Loss

You must see that the following are done in the event of loss or damage to Covered Property:

1. Notify the police if a law may have been broken.
2. Give us prompt notice of the loss or damage. Include a description of the property involved.
3. As soon as possible, give us a description of how, when and where the loss or damage occurred.
4. Take all reasonable steps to protect the Covered Property from further damage, and keep a record of your expenses necessary to protect the Covered Property, for consideration in the settlement of the claim. This will not increase the Limit of Insurance. However, we will not pay for any subsequent loss or damage resulting from a cause of loss that is not a Covered Cause of Loss. Also, if feasible, set the damaged property aside and in the best possible order for examination.
5. You will not, except at your own cost, voluntarily make a payment, assume any obligation, or incur any expense without our consent.
6. As often as may be reasonably required, permit us to inspect the property proving the loss or damage and examine your books and records.

   Also permit us to take samples of damaged and undamaged property for inspection, testing and analysis, and permit us to make copies from your books and records.
7. We may examine any insured under oath, while not in the presence of any other insured and at such times as may be reasonably required, about any matter relating to this insurance or the claim, including an insured's books and records. In the event of an examination, an insured's answers must be signed.
8. Send us a signed, sworn proof of loss containing the information we request to settle the claim. You must do this within 60 days after our request. We will supply you with the necessary forms.
9. Immediately send us copies of any demands, notices, summonses or legal papers received in connection with the claim or suit.
10. Cooperate with us in the investigation or settlement of the claim.

D. Insurance Under Two Or More Coverages

If two or more of this policy's coverages apply to the same loss or damage, we will not pay more than the actual amount of the loss or damage.

E. Loss Payment

1. We will give notice of our intentions within 30 days after we receive the sworn proof of loss.
2. We will not pay you more than your financial interest in the Covered Property.
3. We may adjust losses with the owners of lost or damaged property if other than you. If we pay the owners, such payments will satisfy your claim against us for the owners' property. We will not pay the owners more than their financial interest in the Covered Property.
4. We may elect to defend you against suits arising from claims of owners of property. We will do this at our expense.

CM 00 01 09 04 Page 1 of 3

Note: Page 1 of the Commercial Inland Marine Conditions form tracks with the conditions that we studied for the Commercial Property Conditions form (CP 00 90). The unique conditions we will be discussing here are found on page 2 of the Commercial Inland Marine Conditions form (CM 00 01), beginning with condition **G.**

5. We will pay for covered loss or damage within 30 days after we receive the sworn proof of loss if you have complied with all the terms of this Coverage Part and:
   a. We have reached agreement with you on the amount of the loss; or
   b. An appraisal award has been made.
6. We will not be liable for any part of a loss that has been paid or made good by others.

F. Other Insurance

1. You may have other insurance subject to the same plan, terms, conditions and provisions as the insurance under this Coverage Part. If you do, we will pay our share of the covered loss or damage. Our share is the proportion that the applicable Limit of Insurance under this Coverage Part bears to the Limits of Insurance of all insurance covering on the same basis.
2. If there is other insurance covering the same loss or damage, other than that described in **1.** above, we will pay only for the amount of covered loss or damage in excess of the amount due from that other insurance, whether you can collect on it or not. But we will not pay more than the applicable Limit of Insurance.

G. Pair, Sets Or Parts

1. **Pair Or Set**

   In case of loss or damage to any part of a pair or set we may:
   a. Repair or replace any part to restore the pair or set to its value before the loss or damage; or
   b. Pay the difference between the value of the pair or set before and after the loss or damage.
2. **Parts**

   In case of loss or damage to any part of Covered Property consisting of several parts when complete, we will only pay for the value of the lost or damaged part.

H. Recovered Property

If either you or we recover any property after loss settlement, that party must give the other prompt notice. At your option, the property will be returned to you. You must then return to us the amount we paid to you for the property. We will pay recovery expenses and the expenses to repair the recovered property, subject to the Limit of Insurance.

I. Reinstatement Of Limit After Loss

The Limit of Insurance will not be reduced by the payment of any claim, except for total loss or damage of a scheduled item, in which event we will refund the unearned premium on that item.

J. Transfer Of Rights Of Recovery Against Others To Us

If any person or organization to or for whom we make payment under this Coverage Part has rights to recover damages from another, those rights are transferred to us to the extent of our payment. That person or organization must do everything necessary to secure our rights and must do nothing after loss to impair them. But you may waive your rights against another party in writing:

1. Prior to a loss to your Covered Property.
2. After a loss to your Covered Property only if, at time of loss, that party is one of the following:
   a. Someone insured by this insurance; or
   b. A business firm:
      (1) Owned or controlled by you; or
      (2) That owns or controls you.

This will not restrict your insurance.

GENERAL CONDITIONS

A. Concealment, Misrepresentation Or Fraud

This Coverage Part is void in any case of fraud, intentional concealment or misrepresentation of a material fact, by you or any other insured, at any time, concerning:

1. This Coverage Part;
2. The Covered Property;
3. Your interest in the Covered Property; or
4. A claim under this Coverage Part.

B. Control Of Property

Any act or neglect of any person other than you beyond your direction or control will not affect this insurance.

The breach of any condition of this Coverage Part at any one or more locations will not affect coverage at any location where, at the time of loss or damage, the breach of condition does not exist.

C. Legal Action Against Us

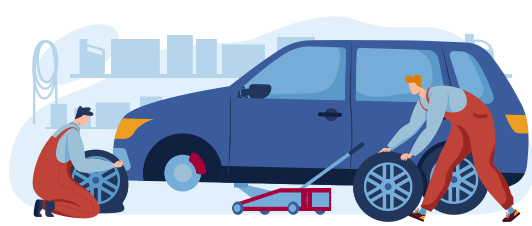
No one may bring a legal action against us under this Coverage Part unless:

1. There has been full compliance with all the terms of this Coverage Part; and
2. The action is brought within 2 years after you first have knowledge of the direct loss or damage.

Page 2 of 3 **CM 00 01 09 04**

G. Pair, Sets, or Parts

In a loss to a pair or set, the insurance company can repair or replace to restore the set. The company can also pay the difference between the value of the pair or set before and after the loss. In case of loss to any part, the company will only pay for the lost or damaged part.



Example

A tire is stolen off a piece of construction equipment which has four wheels. The insurance company will only pay for the loss of the one tire and not all four.

H. Recovered Properties

If property is recovered after a loss, either by the insured or the insurer, the parties must give prompt notice to each other. The insured has the option to have the property returned; however, the amount paid by the company to the insured for the property will have to be refunded to the company. The company will pay recovery expenses and the expenses to repair the recovered property, subject to the limit of insurance.

Example

The insurance company recovers a stolen diamond ring. The insured can take back the diamond ring or keep the insurance settlement.

I. Reinstatement of Limit After Loss

After a claim has been paid, the limit of insurance is not reduced. In the event of "total loss" of a scheduled item, the company will reduce the limit for that scheduled item and refund the unearned premium.

Example

A building under construction with a value of $1,000,000 is insured for that amount. It is partially damaged by fire. The insurance company pays $250,000 for the loss, however the limit of insurance continues to be $1,000,000. Another fire loss for $800,000 occurs two weeks later before the repairs were made. The insured would still have the $1,000,000 limit in place to pay the claim.

Check-In

Directions: Write a "C" next to each statement that is correct, and an "I" next to each statement that is incorrect. If the statement is incorrect, explain why.

__________1. The front tire is stolen from a bicycle used by a courier service. The insurance company will pay for a new set of tires for the bicycle.

__________2. A country club receives an insurance settlement for a stolen golf cart. The golf cart is later recovered. The country club may choose to keep the settlement or return the settlement and receive the recovered vehicle.

__________3. A long-haul trucker has a Motor Truck Cargo policy with a $500,000 limit. After jack-knifing on the interstate, $100,000 worth of general freight was destroyed. When the trucker is able to resume deliveries, the Motor Truck Cargo limit is reinstated to $500,000.

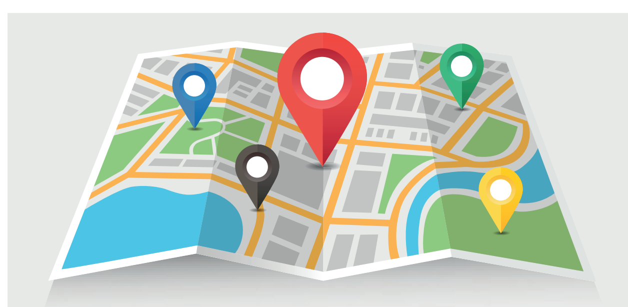
Common Features in Writing Commercial Inland Marine Forms

Inland Marine Conditions

Though it shares many of the same conditions found in the Commercial Property Conditions form, the Commercial Inland Marine Conditions form has several features that are particular to inland marine policies. Let's examine some of these conditions.

Locations Covered

Commercial inland marine forms are referred to as "floaters" because they provide coverage wherever the insured property is located, such as a designated location, unnamed location, or while in transit, subject to the territorial limits contained in the policy.



Open Perils Coverage

The perils cited on inland marine forms may be open perils or named perils. Most policies, however, are written with open perils coverage.

As you will recall, with named perils, the insured must prove that a loss was caused by one of the covered perils. However, with open perils coverage, the insurance company must prove that a loss is excluded in order to deny coverage.

Unlike commercial property forms, commercial inland marine coverage can be freely written for earthquake and flood while the property is in transit (over the road).

Coinsurance Provision

You will almost always find a Coinsurance provision in a commercial inland marine policy. Although not all policies title the provision "Coinsurance," almost all inland marine policies require insurance-to-value coinsurance to be in effect.

Tip: When you receive an inland marine policy, check the Additional Conditions section of the specific coverage form for words like "What We Will Pay," "Insurance-to-Value," and "Coinsurance." Often you will find a statement that reads, "All covered property must be insured for its total value at the time of loss, or you will incur a penalty." This is a 100% Coinsurance clause.

Valuation

Though most commercial inland marine policies are written on an actual cash value basis, there are a number of inland marine forms in which replacement cost coverage is available as an option.

Some inland marine forms may restrict valuation to stated amount. "Stated amount" means that the policy will pay the lesser of:

a. the amount stated next to the insured item,

b. the actual cash value, or

c. the cost to repair the item.

Occasionally, you will write the policy on an agreed value basis, which takes on the same meaning it does in property insurance. This requires the carrier to agree to the Statement of Values provided by the policyholder at the beginning of the policy term, which will then suspend any insurance-to-value requirements.

Exclusions

- **Wear and Tear –** An item is not covered for losses caused by normal wear and tear that occurs over time.
- **Nuclear Action**
- **War**
- **Inherent Vice –** Property is not covered for losses caused by the property's natural tendency to destroy itself. Opals, for example, will crack over a period of time.
- **Government Action –** There is no coverage for property that is lost due to a public authority's destruction, confiscation, or seizure.
- **Loss of Income or Market –** Inland marine policies provide coverage for direct losses only. Indirect or time element losses are not typically included in these forms.
- **Dishonest Acts –** This includes dishonest and criminal acts of the insured, partners, members, officers, managers, employees (including leased employees), directors, trustees, and other authorized representatives.
- **Inventory Shortage –** When inventory shortage is the only indication that a loss might have occurred, there is no coverage.

Knowledge Check

Gaston's Tree Service owns a small backhoe that is insured on a Contractor's Equipment Floater Policy for a scheduled amount of $12,000. The backhoe was destroyed by a covered peril. At the time of the loss, the actual cash value of the backhoe was $11,000 and the replacement cost is $13,500. Disregarding any deductible, how much will the insurer pay for the loss to the backhoe?

When inland marine coverage is provided through a Commercial Package Policy, the policy will contain both a Common Policy Declarations and a Common Policy Conditions (similar to the Commercial Property Policy). The commercial inland marine conditions apply in addition to the common policy conditions. If multiple commercial inland marine coverage forms are written, specific conditions may apply to each class of business.

Summary

Regardless of the term “marine,” an inland marine insurance policy covers property on land. Originally, insurance companies offered “ocean marine” insurance to protect owners from losses of goods shipped by water. Over time, businesses began shipping cargo beyond the major ports and required protection from losses of goods while in transit over land. Today, inland marine insurance provides coverage for a broad range of commercial property such as many types of equipment used in construction, as well as some types of property that are, for all intents and purposes, immovable, such as tunnels, bridges, and other property that facilitates non-marine travel. Businesses that work off-site, move goods and products, or are in possession of the property of others will need commercial inland marine insurance coverage.

Inland marine insurance is often used to insure property that in not typically covered in a standard property insurance policy and for business which may fall into either a filed or non-filed class. Filed classes are those that are generally homogeneous in nature. Non-filed classes are those risks that are typically underwritten on a case-by-case basis. Some of the special types of inland marine policies used to cover inland marine property includes Builders Risk policies, Contractors Equipment Floaters, Transportation policies, and Bailee policies.

A primary reason for writing an commercial inland marine policy instead of a commercial property policy is that inland marine forms provide coverage wherever the property is located (subject to the territorial limits in the policy). Since coverage exists whether the property is at a designated location, an unnamed location, or in transit, many inland marine forms are often referred to as *property floaters*. Coinsurance provisions and property valuation methods may be similar to the conditions found in a commercial property policy, but it is important to review the terms and options offered by each carrier.

Resources

Important concepts related to the Learning Objectives in this section are summarized in separate videos. Online participants can use the links to access the videos. Classroom learners can access the videos at RiskEducation.org/IPresources.

Inland Marine Overview
Transportation Insurance
Bailee Coverage

Section 5 Self-Quiz

Directions: List the types of property eligible for inland marine coverage.

1. ______________________________

2. ______________________________

3. ______________________________

4. ______________________________

5. ______________________________

Directions: Answer the following questions based on the information presented in the course.

1. Explain why non-filed classes of commercial inland marine exposures are not subject to filing requirements from state regulatory authorities. When are non-filed commercial inland marine forms used?

____

____

____

____

2. Which of the following are advantages of using of commercial inland marine insurance? (Check all that apply.)
   - ☐ Useful for insuring property that will remain in a single location owned by a business
   - ☐ Flexible terms and conditions
   - ☐ Ability to tailor the policy to best address the unique exposures of a particular business
   - ☐ Can be used to cover all types of property in all situations
   - ☐ Provides options for insuring special and unique property, property in transit, and providing bailee coverage

3. Which of the following exclusions are NOT common to commercial inland marine policies? (Check all that apply)

- ☐ Wear and Tear
- ☐ Earthquake
- ☐ Nuclear Action
- ☐ War
- ☐ Flood
- ☐ Dishonest Acts
- ☐ Inventory Shortage

Directions: Use the following terms to fill in the blanks. Terms may be used only once, and not all terms will be used.

open	**named**	**cash value**	**actual**
commercial	**repair**	**floaters**	**replacement**
insurance-to-value	**policy**	**agreed**	**stated**

1. Commercial inland marine forms are referred to as ________________ because they provide coverage wherever the insured property is located.

2. Most commercial inland marine policies are written with ________________ perils coverage.

3. Nearly all inland marine policies contain a coinsurance or ________________ provision.

4. Though most commercial inland marine policies are written on a(n) ________________ cash value basis, ________________ cost coverage is available as an option on a number of forms.

5. Some inland marine forms will restrict valuation to a(n) ________________ amount, meaning that the policy will pay the lesser of the amount stated next to the insured item, the actual ________________, or the cost to ________________ the item.

6. Occasionally, commercial inland marine policies are written on a(n) ________________ value basis, which takes on the same meaning as it does in property insurance.

Appendix

Preparing for the Final Exam

For many learners, test preparation is stressful. Please keep in mind that the most important measure of your knowledge will be witnessed in your service to your organization. Think of a test as a tool. Use it to come to an understanding of what you know, how it affects your work, and what more you would like to know to have even greater success in the workplace.

The testing period for the Final Exam is sixty-five minutes long. The test itself is composed of 50 multiple-choice questions that ask you to demonstrate what you know. Each question is worth two points. To pass, you are required to earn a minimum of 70 out of 100 possible points. Questions appear in the order of presentation of the topics.

Remain aware of the time as you take the test. Pace yourself and be aware that unanswered questions are considered incorrect.

Study Techniques

There are some techniques you can use to help you prepare for the end-of-course test. Apply the same techniques to each chapter in your Learning Guide.

1. Review the Section Goal.

2. Review each Learning Objective.

3. Change each header and subhead into a question. Then answer the question. For example,

   Header: Characteristics of Whole Life Insurance

   Question: What are some characteristics of Whole life insurance?

4. Review each diagram, graph, and table. Interpret what you see. Ask yourself how it relates to a specific Learning Objective.

5. Check your answers to each Check-In. Correct your original answers, if necessary.

6. Check your answers to each Knowledge Check. Consider ways to improve your original answers.

7. Re-read the summary at the end of each section.

8. Check your answers to each question in the Self-Quizzes at the end of each section. Correct your original answers, if necessary.

9. Review any comments, highlights, or notes you made in each section.

10. Rewrite important ideas in your own words. Find ways to connect those ideas to your own work experiences.

11. Make flash cards to help you review important vocabulary.

Sample Test Questions

1. A granite reception desk owned by Douglas Automotive was destroyed in a fire. At the time of purchase, the desk cost $10,000, and has since depreciated by $2,000. The replacement cost today is $11,500. What is the actual cash value of this item?
   - A. $11,500
   - B. $10,000
   - C. $8,000
   - D. $9,500

2. Which of the following describes what is sometimes known as an open perils Causes of Loss form?
   - A. Causes of Loss – Basic Form
   - B. Causes of Loss – Broad Form
   - C. Causes of Loss – Special Form
   - D. Causes of Loss – Earthquake Form

Sample 1: The correct answer is D, $9,500

Sample 2: The correct answer is C, Causes of Loss – Special Form

Glossary of Terms

actual cash value (ACV) – the amount equal to the replacement cost minus depreciation of damaged or stolen property at the time of loss

agreed value – an "upfront agreement" between the insured and the insurance company on the fixed value of property

Agreed Value provision – an insurance provision through which the insurer agrees to waive the coinsurance requirement; insurers will require a Statement of Values—signed by the policyholder—as a condition for activating or including an Agreed Value provision in a policy

bailee – the party to whom personal property is delivered and entrusted (without transfer of ownership) for a specific purpose

blanket insurance – a property insurance policy with a single limit that covers more than one type of property at the same location; the same kind of property at multiple locations; or multiple kinds of property at two or more locations

building – includes the building structure, along with any completed additions, fixtures, permanently installed equipment, as well as any personal property used to maintain the premises

business income – the net income (net profit or loss before taxes) that would have been earned or incurred, plus continuing normal operating expenses (including payroll)

business personal property – includes furniture and fixtures, equipment, stock, the cost of labor, and any improvements or betterments

Causes of Loss forms – policy forms that define the covered perils to which insurance applies; three types of Causes of Loss forms apply to commercial property insurance: the Basic Form, the Broad Form, and the Special Form

Coinsurance Clause – a property insurance provision that penalizes the insured's loss recovery if the limit of insurance purchased by the insured is not equal to or greater than a specified percentage (commonly 80 percent) of the value of the insured property

concurrent causation – when a loss is caused by two perils

concurrent causation exclusions – holds that if a loss is caused by two perils, one of which is clearly excluded and one of which is not excluded, the policy must pay for the loss caused by the peril that is not excluded

conditions – policy terms which outline the provisions that control how a policy operates

coverage territory – the geographical area within which insurance coverage applies

Declarations – the front page (or pages) of a policy that specifies the named insured(s), address, the policy period, location of premises, policy limits, and other key information that varies from insured to insured; also known as the information page; often informally referred to as the "Dec" or "Dec page"

deductible – an amount the insurer will deduct from the loss before paying a claim up to its policy limits

depreciation – an accounting method of allocating the cost of a tangible or physical asset over its useful life or life expectancy; represents how much of an asset's value has been used up

dependent properties – other enterprises upon which the insured business depends in order to remain operational at normal levels; four classifications include: contributors, recipients, manufacturers, and leaders

direct loss – loss incurred due to direct physical damage to property, as opposed to time element or other indirect losses

endorsements – policy provisions that modify the basic policy to either add, delete, or exclude certain types of coverage

extra expense – the additional costs, in excess of normal operating expenses, that an organization incurs in order to continue operations while its property is being repaired or replaced after having been damaged by a covered cause of loss

first Named Insured – the person or entity listed first on the policy Declarations as an insured. This primary or first Named Insured is granted certain rights and responsibilities that do not apply to the policy's other named insureds.

functional replacement cost – the cost of acquiring another item of property that will perform the same function with equal efficiency, even if it is not identical to the property being replaced

indemnity – when the insured is protected from loss by the insurer; to indemnify is to "make whole again"

indirect loss – loss resulting from the inability to use damaged property

Inflation Guard – a provision that gradually and continuously increases the limit of insurance by a specified percentage over a specified time period

insurable interest – an interest the insured has in the value of the subject of insurance, including any legal or financial relationship; usually results from property rights, contract rights, and potential legal liability

insurance-to-value requirement – a required amount of insurance equal to a specific percentage of a property's value

Margin Clause – a commercial property insurance provision stating that the most the insured can collect for a loss at a given location is a specified percentage of the values reported for that location on the insured's Statement of Values

named perils – a property insurance term referring to policies that provide coverage only for loss caused by perils specifically listed as covered

open perils – a property insurance term referring to policies that insure against loss to covered property from all causes except those that are specifically excluded

period of restoration – the period of time after a direct physical loss to covered property that ends when the property should be repaired or replaced at a reasonable speed or when the business is resumed at a new location

personal property – all tangible property not classified as real property

personal property of others – property of others in the insured's care, custody, or control

provisional premium – a premium "deposit" an insured makes when using a Value Reporting Form endorsement; an advance premium based on 75% of the policy limit

real property – land and most things attached to the land, such as buildings and vegetation, which are subject to titled ownership

replacement cost – the amount of money a business must currently spend to replace an item of property with one of the same or higher value

scheduled insurance – a property insurance policy that itemizes separate limits that apply to each type of covered property interest (building, personal property, business income, etc.) at each covered location

specific insurance – separate property insurance policies with a limit that applies to one location

Statement of Values – a list of insured property that includes the value of each item expressed either in terms of its replacement cost or actual cash value; submission at the beginning of the policy term is required in order to obtain Agreed Value coverage

stock – merchandise held in storage or for sale; raw materials and in-process finished goods, including supplies used in their packing or shipping

tenant's improvements and betterments – permanent additions or changes made to a building by a lessee at his or her own expense that may not legally be removed

use interest – the insurable interest a tenant has in the improvements and betterments they have installed at their own expense, but which they do not own

valuation – an estimation of an item of property's worth; the amount of money the policyholder will receive from the insurance provider if a covered hazard event occurs

Value Reporting Form endorsement – intended for insureds whose personal property values fluctuate in both time and amount