



# **CERTIFIED INSURANCE COUNSELORS**

## **Commercial Property**

The National Alliance  
2022 Online Learning Guide



**CERTIFIED INSURANCE COUNSELORS**  
**Commercial Property**  
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### **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 becoming a committed participant of The National 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.

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Let's take the first step.

William J. Hold, M.B.A., CRM, CISR  
President/CEO



## DISCLAIMER

This outline is intended as a general guideline and may not apply in each situation.

For any matters of legal and/or tax issues, one should consult with competent counsel or advisor for the matter in question and in the jurisdiction in question.

The Society of CIC and any organization for which this seminar is conducted shall have neither liability nor responsibility to any person or entity with respect to any loss or damage alleged to be caused directly or indirectly as a result of the information contained in this outline.

Insurance policy forms, clauses, rules, court decisions, and laws change constantly. Policy forms and underwriting rules vary from company to company.

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# **EXAM INFORMATION**



# Examination Techniques

## During the Program

### 1. Listen Professionally

Adjust the way you listen to the pace of the instructor. Listen actively for the “big ideas” and search for facts to back them up. Listen for key words and clue phrases like “You should know...,” “Three steps are...,” etc. Listen to the speaker’s inflection and tone. If you intend to take the examination, study and review each evening while it is fresh—don’t wait for the night before the exam.

### 2. Take Careful Notes

During the lectures, take clear notes on each topic and be sure to ask the instructor if you need clarification on a point. Each evening, review these notes, as well as the materials to be covered next. Compose your own exam questions from the material. Study with others and concentrate on the areas you are least certain of—but don’t forget to get a good night’s rest before the examination.

## During the Examination

### 1. Remain Calm

Some of you may have had experiences in your previous schooling that have caused you to feel anxious at the thought of taking an examination. Relax and you will do much better. You will have more access to your memory if you take the examination as a confirmation of your understanding of the material and not as a test of your value as a person. Even if you do not pass the examination the first time, you cannot fail an institute! Your mere presence here is proof of your dedication to professional education and improvement.

### 2. Understand the Examination Format

The examination period is two hours long for the CIC institutes and CPRM courses, and two and one-half hours long for the CRM courses. It is an essay-type exam with a total value of 200 points. In order to pass the exam a participant must score at least 140 points. The examination questions are in the order of presentation of the topics and are weighted to the length of the presentations. To work at a proper pace within the two-hour or two and one-half hour period, you should allow approximately six to eight minutes to answer each question. To work slower may mean that some questions might not be answered. It is a good rule of thumb in exam writing to NEVER LEAVE AN ANSWER BLANK.

## During the Examination (*continued*)

### 3. Understand Each Question

Read the question carefully, looking for clues contained in it. Look for action words, such as: compare, contrast, define, summarize, explain, etc. Underline key points or questions. Be sure that you answer the question that is asked and not the one that you wish had been asked.

### 4. Plan Before You Write

It makes sense to briefly outline your answer before you begin writing. This will help you make sure you understand the full scope of the question and make it less likely that you will leave something important out of your answer. Be specific and give reasons. “Yes” or “No,” “Covered” or “Not Covered” are not adequate answers. Rarely will a question require only a short, one-sentence answer. Take the time to explain.

### 5. Use All of Your Time

Even if you finish your examination early, use the extra time to carefully review both the questions and the answers. Have you really answered the question that was asked? Is your answer as complete as it should be to convey your understanding? Use all of your time. Have you answered ALL of the questions?

## Sample Examination Questions and Composite Answers

### Note to Candidates:

This composite set of answers to the Certified Insurance Counselors examinations is published for CIC candidates and others interested in the CIC study program. The answers have been taken from actual student papers and have been edited by the staff of the Society. The questions and answers are ***illustrative only***; the answers are not necessarily perfect.

It should be understood that these answers may be longer and more complete than necessary to receive a high grade. Your answers will be graded on the factual response to the question asked, the instructions given, and the completeness of the answer. You should not use this set of questions and answers as a substitute for a thorough study of the subject matter.

# Agency Management Institute

## Sample Examination Questions and Composite Answers

### Sample Question 1:

Agency planning should be conducted through a formal process that includes several steps. Please identify the five formal steps in the planning process.

### Sample Answer 1:

1. *Conduct a situation analysis*
2. *Review the agency's mission statement*
3. *Write the agency plan*
4. *Implement*
5. *Monitor/evaluate and adjust*

### Sample Question 2:

Agent Best placed a Commercial Property policy with the Fire and Casualty Company. Subsequently, Agent Best's client suffered a large fire loss covered by the policy. However, because of financial difficulties, Fire and Casualty could not pay. Explain the possible liability of the agent in this case.

### Sample Answer 2:

*One of the agent's legal responsibilities to clients is the duty to investigate the solvency of an insurance company. This can include not only the initial placement, but also an ongoing duty.*

# Commercial Casualty Institute

## Sample Examination Questions and Composite Answers

### Sample Question 1:

Your insured states that he understands his Commercial General Liability (CGL) Policy provides coverage for an “insured contract.” He then asks, “What is an ‘insured contract’?” Answer your insured’s question by listing the six “insured contracts” found in the CGL policy.

### Sample Answer 1:

1. *Lease of premises, except for fire damage to the rented premises.*
2. *Sidetrack agreement.*
3. *Easement or license agreement, except construction or demolition on or within 50 feet of a railroad.*
4. *An obligation to indemnify a municipality as required by ordinance, except in connection with work for municipality.*
5. *Elevator maintenance agreement.*
6. *That part of any other contract, pertaining to an insured’s business, assuming tort liability of another to pay a third party.*

### Sample Question 2:

The Workers Compensation and Employers Liability Insurance Policy is composed of three coverages. Name each coverage and briefly describe the purpose of one of the coverages.

### Sample Answer 2:

Must Name All Three Coverages:

*Workers Compensation Insurance*

*Employers Liability Insurance*

*Other States Insurance*

Provide Any One Description:

*Workers Compensation Insurance provides coverage for workers compensation benefits to employees as required by state law.*

*or*

*Employers Liability Insurance provides coverage for liability other than state mandated benefits arising out of an employee’s work-related injuries.*

*or*

*Other States Insurance provides temporary automatic coverage for new operations in other states, plus coverage for incidental exposures in other states. The states must be listed in Item 3C on the Information Page for other states insurance to apply.*

# Commercial Property Institute

## Sample Examination Questions and Composite Answers

### Sample Question 1:

MAP Company insures its corporate headquarters under an unendorsed Building and Personal Property Coverage Form with the Special Causes of Loss Form. The building is insured for \$600,000 and the business personal property for \$200,000. The 80% coinsurance requirement is satisfied. Ms. Peterson, the comptroller, asks the following questions. How would you respond to each question? Support your answer.

- A. "Part of our premises includes an unattached retaining wall for decorative effects. The value of this wall is \$15,000. What coverage applies if someone runs their car into the wall?"
- B. "Will our policy pay for loss to our employees' belongings while they are at work?"

### Sample Answer 1A:

*No coverage. Retaining walls that are not part of the building are defined as Property Not Covered.*

### Sample Answer 1B:

*Covered. Under the Coverage Extension Personal Effects And Property of Others coverage applies up to \$2,500 at each described premises. However, loss or damage by theft is not covered.*

### Sample Question 2:

A prospect of yours decides to purchase Business Income Coverage from your agency. This prospect asks you the following question: "How is the term 'Business Income' defined?" Please respond to the client's question.

### Sample Answer 2:

*Business Income is defined as Net Income that would have been earned/incurred and continuing normal operating expenses including payroll.*

# Life & Health Institute

## Sample Examination Questions and Composite Answers

### Sample Question 1:

The following policy provisions are commonly found in most major medical insurance policies: (a) coinsurance clause, (b) deductible. Describe each provision.

### Sample Answer 1:

- (a) *The coinsurance clause requires that the insured pay a portion of each dollar loss after the deductible has been exceeded.*
- (b) *A deductible is an amount of money paid by the insured. It must be satisfied before the insurance contract responds.*

### Sample Question 2:

One of the standard provisions found in most life insurance contracts is the reinstatement provision. Explain the reinstatement provision and list the requirements needed to reinstate a policy.

### Sample Answer 2:

*After the expiration of the grace period, the insured may request the reinstatement of the contract. Requirements: proof of insurability, payment of all back premiums, interest, and policy loans.*



# Personal Lines Institute

## Sample Examination Questions and Composite Answers

### Sample Question 1:

John has his home insured on a Homeowner 3 - Special Policy that has a \$200,000 Coverage A – Dwelling limit and a \$300,000 Coverage E - Liability coverage.

- A. John has an apartment above his detached garage that he rents to a college student. The tenant accidentally starts a fire that causes \$25,000 damage to the garage/apartment. The fire also causes \$6,000 damage to the tenant's personal property. Ignoring any deductible, how much of this loss is covered by John's Homeowners Policy? Include the reason for your answer.
- B. While John was on vacation, a neighbor cared for his dog as a favor. When the neighbor failed to shut the gate to the fence, John's dog got out of the yard and bit a child. The parents of the injured child have filed a \$500,000 lawsuit against both John and his neighbor for the bodily injury to the child. Will John's Homeowner Policy provide coverage to both him and his neighbor? Explain your answer.

### Sample Answer 1:

- A. *While fire is a covered peril, the homeowners policy does not cover another structure rented or held for rental to others unless used solely as a private garage. The tenant's property is not covered as the homeowner policy excludes property of tenants.*
- B. *John is an insured and is provided coverage for bodily injury caused by his dog. The neighbor is also an insured while caring for John's dog as the neighbor is not in the business of caring for animals. The maximum the policy will pay is the \$300,000 per occurrence limit.*

### Sample Question 2:

Sue is the named insured on a Personal Auto Policy on which she insures her 2014 Toyota. The policy has Part A – Liability limits of 50,000/100,000/25,000. Sue also has a company car provided by her employer.

- A. Sue has an at-fault accident while driving her company car. The driver of the other car is seriously injured, and the other vehicle is totaled. Explain whether or not Sue's Personal Auto Policy will provide liability coverage for the injury to the other driver and the damage to the other vehicle.
- B. Sue is helping her friend move. While driving her Toyota, Sue has an accident and the friend's property in her car is damaged. Explain whether or not Sue's Personal Auto Policy will pay for the \$1,500 damage to her friend's property.

### Sample Answer 2:

- A. *Sue's policy does not provide liability coverage while she is driving her company car. There is an exclusion for a vehicle furnished or available for her regular use.*
- B. *Sue's policy will not cover the damage to her friend's property. There is an exclusion for property damage to property being transported.*





# The Society of Certified Insurance Counselors

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## Section 1

# **COMMERCIAL PROPERTY COVERAGE FORMS & ENDORSEMENTS**



## Commercial Property Coverage Forms & Endorsements

### Section Goal

In this section, participants will analyze the Commercial Property Policy, including the Building and Personal Property Coverage Form, and how coverage may be modified.

### Learning Objectives

1. Using knowledge of the Common Policy Conditions, Commercial Property Declarations, and Commercial Property Conditions, the participant will be able explain to a client the rights and duties of the first Named Insured, how coinsurance applies, and who has the rights of recovery in the event of a loss.
2. Using knowledge of the Building and Personal Property Coverage Form, the participant will be able to distinguish between what is Covered Property and Property Not Covered, and endorsements, if any, that may be used to modify the insurance coverage.
3. Using knowledge of Covered Property in Building and Personal Property Coverage Form including:
  - Specific Coverage
  - Scheduled Coverage
  - Blanket Coverage
  - Key endorsements

the participant will be able to distinguish the advantages and disadvantages of writing a policy on a blanket basis and describe the endorsements that are available to handle fluctuating values.

4. Using knowledge of the six Additional Coverages in the Building and Personal Property Coverage Form, the participants will be able to explain how coverage applies in the event of a loss, and the endorsements available to modify coverage.
5. Using knowledge of the seven Coverage Extensions in the Building and Personal Property Coverage Form, the participants will be able to explain how coverage applies in the event of a loss, and the endorsements available to modify coverage.
6. Using knowledge of the Building and Personal Property Coverage Form including:
  - Limits of Insurance
  - Deductibles

the participant will be able to explain how the policy will respond in the event of loss or damage and describe the endorsements that can be used to modify these policy provisions.

7. Using knowledge of the Loss Conditions in the Building and Personal Property Coverage Form the participant will be able to explain how the policy will respond in the event of loss or damage and explain the endorsements that can be used to modify these policy conditions.
  
8. Using knowledge of the Building and Personal Property Coverage Form, describe the purpose of the four Optional Coverages and how these coverages apply when activated on the Declarations Page.

## Structure of a Commercial Property Policy (CPP)

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### **Learning Objective 1:**

Using knowledge of the Common Policy Conditions, Commercial Property Declarations, and Commercial Property Conditions, the participant will be able explain to a client the rights and duties of the first Named Insured, how coinsurance applies, and who has the rights of recovery in the event of a loss.

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### Components of a CPP

**Common Policy Declarations IL DS 00 09 08**

**Common Policy Conditions IL 00 17 11 98**

**Commercial Property Coverage Part Declarations Page CP DS 00 10 00**

**Commercial Property Conditions CP 00 90 07 88**

**Commercial Property Coverage Form(s)**

**Commercial Property Causes Of Loss Form(s)**

**Endorsements**



## Common Policy Declarations IL DS 00 09 08

**Named Insured**

**Mailing Address**

**Policy Period**

**Business Description**

**Premium For Coverage Parts – Total**

**Forms Applicable**

## Common Policy Conditions IL 00 17 11 98

The provisions of this form are common to all coverage parts

### A. Cancellation

- Nearly every state has an endorsement for cancellation that modifies this provision

#### 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.

IL 00 17 11 98

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### B. Changes

#### 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.

IL 00 17 11 98

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## C. Examination Of Your Books And Records

### 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.

IL 00 17 11 98

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## D. Inspections And Surveys

### 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.

IL 00 17 11 98

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**E. Premiums**

**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.

IL 00 17 11 98

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**F. Transfer Of Your Rights And Duties Under This Policy**

**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

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### **Summary of the five rights and duties of the First Named Insured**

The first Named Insured indicated on the Declarations has certain rights and duties:

1. Authorized to cancel
2. Receive notice of cancellation
3. Make changes with insurer consent
4. Responsible for payment of all premiums
5. Payee for return premiums

## COMMERCIAL PROPERTY COVERAGE PART DECLARATIONS PAGE

POLICY NO.

EFFECTIVE DATE \_\_\_\_/\_\_\_\_/\_\_\_\_

☐ "X" If Supplemental  
Declarations Is Attached

NAMED INSURED

### DESCRIPTION OF PREMISES

Prem. No.	Bldg. No.	Location, Construction And Occupancy
--------------	--------------	--------------------------------------

COVERAGES PROVIDED Insurance At The Described Premises Applies Only For Coverages For Which  
A Limit Of Insurance Is Shown

Prem. No.	Bldg. No.	Coverage	Limit Of Insurance	Covered Causes Of Loss	Coinsurance*	Rates
--------------	--------------	----------	-----------------------	---------------------------	--------------	-------

\*If Extra Expense Coverage, Limits On Loss Payment

OPTIONAL COVERAGES Applicable Only When Entries Are Made In The Schedule Below

Prem. No.	Bldg. No.	Expiration Date	Agreed Value Cov. Amount	Replacement Cost (X) Building	Pers. Prop.	Including "Stock"
--------------	--------------	-----------------	-----------------------------	----------------------------------	----------------	----------------------

Inflation Guard (%) Bldg. Pers. Prop.	*Monthly Limit Of Indemnity (Fraction)	Maximum Period Of Indemnity (X)	*Extended Period Of Indemnity (Days)
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\*Applies to Business Income Only

### MORTGAGEHOLDERS

Prem. No.	Bldg. No.	Mortgageholder Name And Mailing Address
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### DEDUCTIBLE

\$500. Exceptions:

### FORMS APPLICABLE

To All Coverages:

To Specific Premises/Coverages:

Prem. No.	Bldg. No.	Coverages	Form Number
--------------	--------------	-----------	-------------

## Commercial Property Declarations CP DS 00 10 00

### Effective Date

### Named Insured

- Insurable interest at time of loss

### Description Of Premises

- Location
- Construction
- Occupancy

### Coverages Provided

- Coverage – building, business personal property, business income
- Limit Of Insurance – coverage amount
- Covered Causes Of Loss – by item(s)
- Coinsurance
  - By item(s)
  - Usually 80%-90%-100% for Covered Property – more options for business income
  - For Extra Expense – Limits On Loss Payment
- Rates

## **Explanation of Coinsurance**

Coinsurance can be basically described as a rating and underwriting concept that is designed to encourage an insured to purchase an amount of insurance nearly equal or equal to the full value of the property being insured

Coinsurance has no effect when insurance is carried in the amount required by the coinsurance percentage, usually 80% of the value or more. If the required limit of insurance is carried, then the insurance company pays the entire loss, not to exceed the limit of insurance. If the limit of insurance is adequate, then no penalty applies.

The insurance amount required is the value of the Covered Property at the time of loss multiplied by the coinsurance percentage on the Declarations.

### ***Example of adequate insurance:***

*\$250,000 Value of property at time of loss*

*80% Coinsurance*

*\$200,000 Limit of insurance required*



CP DS 00 10 00 (cont.)

If the amount carried is less than the amount required, then the named insured is considered underinsured. The following coinsurance formula is used to determine the loss settlement amount. A coinsurance penalty applies on a loss if an insufficient Limit of Insurance is carried.

$$\frac{\text{Amount Carried}}{\text{Amount Required}} \times \text{Loss} = \text{Recovery minus deductible equals settlement}$$

#### Example of inadequate limits (underinsurance)

Building	\$100,000
Deductible	\$1,000
Insurance Amount Carried	\$40,000
Coinsurance Clause	80%
Insurance Amount Required	\$80,000
(\$100,000 X 80% = \$80,000)	

A loss occurs, and the Insured building damage is \$10,000.

$$\frac{\$40,000}{\$80,000} \times \begin{matrix} 10,000 \\ \text{loss amount} \end{matrix} = \$5,000 \text{ minus } \$1,000 \text{ deductible equals } \$4,000$$

**The settlement is \$4,000**

Excerpt from CP Coverage Part Declarations Page CP DS 00 10 00

OPTIONAL COVERAGES					Applicable Only When Entries Are Made In The Schedule Below		
Prem.	Bldg.	Agreed Value			Replacement Cost (X)		
No.	No.	Expiration Date	Cov.	Amount	Building	Pers. Prop.	Including "Stock"

## Optional Coverages

Coverage must be activated on the Declarations. In-depth discussion on the Optional Coverages provision will be addressed later in this section when we go over the coverage form.

### 1. Agreed Value

- Expiration date only, not longer than 12 months
- Suspends coinsurance clause
- Can apply to Covered Property and/or Business Income

### 2. Replacement Cost

- Actual Cash Value (ACV) applies unless Replacement Cost (RC) is activated by marking an (X) on the items to be covered for RC coverage
- If Replacement Cost Coverage is shown on the Declarations, coverage can also be activated for Extension Of Replacement Cost To Personal Property Of Others by having it indicated on the Declarations.
  - This extension does not appear on the ISO Commercial Property Coverage Part Declarations Page. It would have to be requested and added to the Declarations for RC coverage to be activated for personal property of others. Some Insurance companies often include this extension under Optional Coverage on their Declarations to be marked (X) to activate the coverage.

## **Actual Cash Value vs. Replacement Cost**

### **ACV**

- Traditionally the valuation method found in property insurance policies
- Cost to replace the covered property at the premises at the time of the loss, minus depreciation due to the fact that the property has been used for a period of time

### **RC**

- Method of valuation commonly desired but oftentimes must be requested
- The amount needed to replace covered property at a premises with like kind and quality in today's dollars
- Depreciation is not considered

*If Extra Expense Coverage, Limits On Loss Payment				
OPTIONAL COVERAGES		Applicable Only When Entries Are Made In The Schedule Below		
Inflation Guard (%)		*Monthly Limit Of	Maximum Period	*Extended Period
Bldg.    Pers. Prop.		Indemnity (Fraction)	Of Indemnity (X)	Of Indemnity (Days)
*Applies to Business Income Only				

3. Inflation Guard

- Mark annual percentage for item(s) covered

4. Business Income

If Business Income Coverage is also provided, these Optional Coverages entries also apply on the Declarations in addition to Business Income Agreed Value

- Monthly Limit of Indemnity
  - Enter a fraction for this optional coverage to apply
- Maximum Period of Indemnity
  - Mark (X) for this optional coverage to apply
- Extended Period of Indemnity
  - Enter the number of days for this optional coverage to apply

CP DS 00 10 00 (cont.)

Excerpt from CP Coverage Part Declarations Page CP DS 00 10 00

<b>MORTGAGEHOLDERS</b>			
Prem. No.	Bldg. No.	Mortgageholder Name And Mailing Address	
<b>DEDUCTIBLE</b>			
\$500. Exceptions:			
<b>FORMS APPLICABLE</b>			
To All Coverages:			
To Specific Premises/Coverages:			
Prem. No.	Bldg. No.	Coverages	Form Number

### Mortgageholders

- Per Building

### Deductible

- \$500 Deductible standard in most states
- Other Deductibles available

### Forms Applicable

### A. CONCEALMENT, MISREPRESENTATION OR FRAUD

This Coverage Part is void in any case of fraud by you as it relates to this Coverage Part at any time. It is also void if you or any other insured, at any time, intentionally conceal or misrepresent a material fact 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. 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.

CP 00 90 07 88

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### A. Concealment, Misrepresentation Or Fraud

- By any insured at any time
- Can void this Coverage Part
- May be modified by state specific endorsement

### B. Control Of Property

- Acts of others beyond named insured's direction or control will not affect coverage
- Breach of conditions at one location will not affect coverage at other locations where breach does not exist

### C. Insurance Under Two Or More Coverages

- It is possible that more than one section of the policy could apply to the same loss
- Policy will not pay more than the actual loss amount, regardless of how many coverages might apply

**D. 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 of the terms of this Coverage Part; and
2. The action is brought within 2 years after the date on which the direct physical loss or damage occurred

**E. LIBERALIZATION**

If we adopt any revision that would broaden the coverage under this Coverage Part without additional premium within 45 days prior to or during the policy period, the broadened coverage will immediately apply to this Coverage Part.

**F. NO BENEFIT TO BAILEE**

No person or organization, other than you, having custody of Covered Property will benefit from this insurance

CP 00 90 07 88

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**D. Legal Action Against Us**

- Cannot sue the insurer until all terms of the coverage part have been met
- Any action must be brought within two years of date of loss
- May be modified by state specific provision

**E. Liberalization**

- If coverage is broadened on newly issued policies, those policies already in force will have the benefit of the broadened coverage, but ...
- Applies only if there is no charge for the broadened coverage

**F. No Benefit To Bailee**

- This policy protects the named insured, not the Bailee
- Reinforces the subrogation provision

**G. 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.

**H. POLICY PERIOD, COVERAGE TERRITORY**

Under this Coverage Part:

1. We cover loss or damage commencing:
  - a. During the policy period shown in the Declarations; and
  - b. Within the coverage territory.
2. The coverage territory is:
  - a. The United States of America (including its territories and possessions);
  - b. Puerto Rico; and
  - c. Canada.

CP 00 90 07 88

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**G. Other Insurance**

1. If other insurance covering the same property is in force with the same terms, conditions, etc., this coverage part will pay on a pro rata basis
2. If the other insurance does not have the same terms, conditions, etc., this coverage part will be excess

**H. Policy Period, Coverage Territory**

1. Coverage applies only to losses occurring during the policy period shown in the Declarations and within the coverage territory
2. Coverage territory is the US, its territories and possessions, Puerto Rico, and Canada



## **Endorsements available to modify the Coverage Territory**

The Coverage Territory can be expanded to provide limited coverage for Business Personal Property in Foreign Coverage Territories

### **Business Personal Property Limited International Coverage CP 04 32 04 02**

- Provides coverage for Business Personal Property that is in, or is enroute to or from, a Foreign Coverage Territory
- The Foreign Coverage Territory is listed in the Schedule

### **Property In The Process Of Manufacture By Others Limited International Coverage CP 04 33 04 02**

- Provides coverage for raw materials and in-process goods that are in the process of manufacture in a Foreign Coverage Territory, provided that the manufacture is done by others at a location that **is not** owned or operated by the Insured
- The Foreign Coverage Territory is the territory listed in the Schedule

**Note:**

Further discussion is beyond the scope of this Institute

**I. 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 or Covered Income.
2. After a loss to your Covered Property or Covered Income only if, at time of loss, that party is one of the following:
  - a. Someone insured by this insurance;
  - b. A business firm:
    - (1) Owned or controlled by you; or
    - (2) That owns or controls you; or
  - c. Your tenant.

This will not restrict your insurance.

**I. Transfer Of Rights Of Recovery Against Others To Us**

(Also known as the Waiver of Subrogation Clause)

1. Can waive rights of recovery against anyone as long as it is...prior to a loss and it is in writing
2. Can waive rights of recovery after a loss only if in writing and the responsible party is, at time of loss, one of the following:
  - a. Another insured, or
  - b. A business owned or controlled by the named insured,  
OR  
a business that owns or controls the named insured, or
  - c. A tenant of the named insured

## Commercial Property Coverage Forms

### Purposes

1. Identifies the subject of insurance
2. Describes additional coverages and coverage extensions
3. Provides additional conditions not specified in the common policy conditions or the commercial property conditions
4. Provides same coverages regardless of Causes Of Loss Form(s) selected

### Types

**Building and Personal Property Coverage Form CP 00 10 10 12**

**Condominium Association Coverage Form CP 00 17 10 12**

**Condominium Commercial Unit Owners Coverage Form CP 00 18 10 12**

**Builders Risk Coverage Form CP 00 20 10 12**

**Business Income (and Extra Expense) Coverage Form CP 00 30 10 12**

**Business Income (Without Extra Expense) Coverage Form CP 00 32 10 12**

**Legal Liability Coverage Form CP 00 40 10 12**

**Extra Expense Coverage Form CP 00 50 10 12**

**Leasehold Interest Coverage Form CP 00 60 06 95**

**Mortgage Holders Errors & Omissions Coverage Form CP 00 70 10 12**

**Tobacco Sales Warehouses Coverage Form CP 00 80 10 12**

[illegible]



## Knowledge Check 1

1. The Common Policy Conditions stipulates certain conditions. Select the correct answer.
  - a. The first named insured has certain rights and duties.
  - b. Stipulates that all insureds have the same rights and duties.
  - c. Stipulates that all insureds have the right to make changes.
  - d. Stipulates the named insured can make changes without the insurer's consent.
  
2. If the named insured has a building valued at a \$1,000,000 and has 80% indicated on the Declarations for coinsurance, which of the following is the amount that is required to avoid a coinsurance penalty?
  - a. At least \$800,000
  - b. At least \$1,000,000
  
3. What is the formula that applies when an insufficient Limit Of Insurance is carried?
  - a.  $\text{Amount carried/amount required} \times \text{Loss} = \text{Recovery minus deductible equals settlement}$
  - b.  $\text{Amount required/amount carried} \times \text{Loss} = \text{Recovery minus deductible equals settlement}$
  - c.  $\text{Amount carried/amount required} \times (\text{Loss minus Deductible}) = \text{Recovery settlement}$
  
4. When can a named insured waive his rights of recovery against another party?
  - a. It must be in writing prior to a loss.
  - b. Prior to a loss, but it does not have to be in writing.
  - c. Before and after a loss as long as it in writing.
  - d. It must be in writing prior to a loss; after a loss in writing but only for certain responsible parties.

## Building And Personal Property Coverage Form (BPPCF) CP 00 10 10 12

Before starting the discussion of the BPPCF, here is a brief overview of the sections of this coverage form.

### Preamble

#### A. Coverage (Insuring Agreement)

1. Property Covered
2. Property Not Covered
3. Covered Causes Of Loss
4. Additional Coverages
5. Coverage Extensions

#### B. Exclusions And Limitations

#### C. Limits Of Insurance

#### D. Deductible

#### E. Loss Conditions

#### F. Additional Conditions

#### G. Optional Coverages

#### H. Definitions

## Insuring Agreement, Covered Property, and Property Not Covered

### Learning Objective 2:

Using knowledge of the Building and Personal Property Coverage Form, the participant will be able to distinguish between what is Covered Property and Property Not Covered, and endorsements, if any, that may be used to modify the insurance coverage.

In this section we will review the Insuring Agreement, the Covered Property provision, and the Property Not Covered provision under the BPPCF.

### Preamble

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.

CP 00 10 10 12

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Paragraph 1 restricts broadness

Paragraph 2 identifies how named insured and insurer will be identified

- **Additional Insured – Building Owner CP 12 19 06 07**

This endorsement is used to identify the building owner described in this endorsement as a Named Insured, but only with respect to direct physical loss or damage to the building(s) described in the Schedule. It is used for situations where the tenant provides the insurance on the building – e.g., under a triple net lease, but the building owner does not receive notice of cancellation under this endorsement

Paragraph 3 identifies how to identify words with special meaning and where to find the special meaning

**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.

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**A. Coverage (Insuring Agreement)**

- There must be direct physical loss or damage
- The loss or damage must be to Covered Property
- The Covered Property must be at the premises described in the Declarations
- The loss or damage must be caused by or result from a 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;

CP 00 10 10 12

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**1. Covered Property**

There are three categories of Covered Property:

- a. Building
- b. Your Business Personal Property
- c. Personal Property Of Others

**a. Building** – The building category of property includes not only the building or structure identified in the Declarations but also a number of other types of property

- (1) Completed additions
- (2) Fixtures, including outdoor fixtures
- (3) Machinery and equipment (considered *permanently installed*) can be covered as Building Property in certain instances.

**Note:**

The determination of whether a piece of machinery or equipment is considered Building depends both on how the named insured intends to have the property covered and the insurer's interpretation of what *permanently installed* means

**1. Covered Property**

- (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.

CP 00 10 10 12

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**(4) Personal property used to service the building or premises:**

- (a) Fire extinguishers and other equipment
- (b) Outdoor furniture like park benches
- (c) Floor coverings
- (d) Cooking appliances, refrigerators, dishwashers, washers, and dryers

**Note:**

Potentially a broad category of items that could include cleaning/grounds-keeping equipment and vehicles used to service the premises in addition to those listed above

**(5) IF NOT COVERED BY OTHER INSURANCE**

- (a) Additions under construction, alterations and repairs to the building or structure
- (b) Building materials, supplies, and temporary structures can be considered Building as long as they are:

On or within 100 feet of the described premises, and

The materials and supplies **must** be used to complete an addition, alteration, or repair to the building or structure

## Endorsements that modify the meaning of Building Property

### Additional Building Property CP 14 15 07 88

- Used to clarify that certain items which might be in a *gray area* are covered under Building, for example:
  - Permanently installed machinery and equipment, and
  - Fixtures, including outdoor fixtures
- Used to cover certain Your Business Personal Property under Building instead of Your Business Personal Property (e.g., church organs, freezer cases in supermarkets, large production equipment, etc.)
- Insured must already have coverage for Building

#### *Example:*

*Soak n' Suds carwash has a \$500,000 Building Limit Of Insurance and an additional \$500,000 Limit Of Insurance in Your Business Personal Property to cover the carwash equipment. You explain to the named insured that they could cover the carwash equipment under building coverage with the endorsement Additional Building Property. The Building Limit Of Insurance will need to be raised to \$1,000,000 in order to avoid problems with Coinsurance. Don't forget to decrease the Your Business Personal Property Limit Of Insurance as well.*

### Additional Property Not Covered CP 14 20 07 88

- Used to add specific types of property to the list of "Property Not Covered" if named insured/insurer does not want or need to cover such property (e.g., tenants improvements & betterments for owner of building where lease requires tenant to insure these)
- The specified property should not be included in the Limit Of Insurance and also should not be included in the coinsurance calculations
- May also make an unacceptable risk acceptable

- 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.

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**b. Your Business Personal Property**

- (1) In/on described building or structure OR In the open/in a vehicle within 100 feet of building or structure OR 100 feet of the premises, whichever distance is greater
- (2) Fixtures referred to in this definition are trade fixtures and would be removed when the building is vacated
- (3) Machinery and equipment
- (4) Stock is a defined term

**H. Definitions**

- 3.** "Stock" means merchandise held in storage or for sale, raw materials and in-process or finished goods, including supplies used in their packing or shipping.

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- (5) Your owned personal property used in your business
- (6) Covers labor/materials the named insured has put into customers' property

- (7) Use interest in improvements and betterments as defined (has its own valuation provision)
- (8) Leased property – contractual responsibility to INSURE – not enough to have a contractual responsibility for loss or damage

## Endorsements that modify Your Business Personal Property

### Additional Property Not Covered CP 14 20 07 88

- In addition to modifying Building Property, this endorsement can also modify Your Business Personal Property

#### *Example:*

*The insured operates a large stone quarry. Their “stock” consists of large amounts of stone aggregate, used for making concrete, which is both loose and still attached to the rock face. The stone is constantly exposed to the elements and faces very little risk from a Covered Cause Of Loss.*

*Using the endorsement **Additional Property Not Covered CP 14 20 07 88**, the named insured can add “stock” to the Property Not Covered. Accordingly, the named insured would not need to include the value of the “stock” in their Limit Of Insurance.*

### Leased Property CP 14 60 07 88

- Used to insure personal property leased to the named insured as Your Business Personal Property instead of categorizing it as Personal Property Of Others, especially needed when there is a contractual responsibility for loss but not a contractual responsibility to insure
- Should be on every Building And Personal Property Coverage Form – *all leased property* indicated in the Schedule
- Leased property may be covered on an Agreed Value basis rather than Actual Cash Value or Replacement Cost – *as stated in the lease* if the Agreed Value Option is selected on the Schedule

### **Your Business Personal Property – Separation of Coverage CP 19 10 06 95**

- Can separate out and specify a Limit Of Insurance for any of the seven categories of Your Business Personal Property
- The Your Business Personal Property Limit Of Insurance on the Declarations does not apply to property scheduled in this endorsement
- Can be used for tenant's improvements and betterments – then building rate is used rather than the business personal property rate

#### **Example:**

*Erica's Accoutrement is a small clothing retailer. The leased space is in a new strip shopping center and is completely unfinished. Prior to starting business at this location, the named insured – Erica – has to install walls, flooring, an employee restroom, and a built-in sales counter. Additionally, Erica has to insure all of the items traditionally associated with a clothing retailer (e.g., inventory, shelves, cash registers, computers, etc.).*

*Erica signed a 10-year lease on the location and will need to be able to replace the improvements made to the space during that time. Erica asks her agent if she can insure the renovations she completed, even though her lease states that the improvements belong to the owner of the building.*

*The agent explains that even though Erica does not own the improvements and betterments, her lease gives her an insurable interest in its use (i.e., a use interest). The agent goes on to explain that even though the renovation would be considered Your Business Personal Property, her coverage for the improvements and betterments could be insured under the lower building rate by indicating that tenant's improvements and betterments are to get a separate Limit Of Insurance using the endorsement **Your Business Personal Property – Separation of Coverage CP 19 10 06 95**.*

*Note that in this case, the value of the tenant's improvements and betterments would not be included in the Your Business Personal Property Limit Of Insurance.*

**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.

However, our payment for loss of or damage to personal property of others will only be for the account of the owner of the property.

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**c. Personal Property Of Others**

- (1) Generally, applies to property that has been entrusted to the named insured for the named insured to work on/on consignment/sold but not delivered/leased to named insured or property of the named insured's employees kept at work
- (2) Only covers the property for direct damage, not loss of use
  - Could use **Legal Liability Coverage Form CP 00 40** for loss of use exposure – will be discussed later in this section

**3. Covered Causes Of Loss**

See applicable Causes Of Loss form as shown in the Declarations.

CP 00 10 10 12

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**Note:**

Causes of Loss will be discussed in another section of this Institute

## 2. Property Not Covered

### 2. Property Not Covered

Covered Property does not include:

- a. Accounts, bills, currency, food stamps or other evidences of debt, money, notes or securities. Lottery tickets held for sale are not securities;
- b. Animals, unless owned by others and boarded by you, or if owned by you, only as "stock" while inside of buildings;
- c. Automobiles held for sale;
- d. Bridges, roadways, walks, patios or other paved surfaces;
- e. Contraband, or property in the course of illegal transportation or trade;
- f. The cost of excavations, grading, backfilling or filling;
- g. Foundations of buildings, structures, machinery or boilers if their foundations are below:
  - (1) The lowest basement floor; or
  - (2) The surface of the ground, if there is no basement;
- h. Land (including land on which the property is located), water, growing crops or lawns (other than lawns which are part of a vegetated roof);
- i. Personal property while airborne or waterborne;
- j. Bulkheads, pilings, piers, wharves or docks;
- k. Property that is covered under another coverage form of this or any other policy in which it is more specifically described, except for the excess of the amount due (whether you can collect on it or not) from that other insurance;
- l. Retaining walls that are not part of a building;
- m. Underground pipes, flues or drains;
- n. Electronic data, except as provided under the Additional Coverage, Electronic Data. 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. This paragraph, n., does not apply to your "stock" of prepackaged software, or to electronic data which is integrated in and operates or controls the building's elevator, lighting, heating, ventilation, air conditioning or security system;



**2. Property Not Covered**Covered Property does not include:

- o. The cost to replace or restore the information on valuable papers and records, including those which exist as electronic data. Valuable papers and records include but are not limited to proprietary information, books of account, deeds, manuscripts, abstracts, drawings and card index systems. Refer to the Coverage Extension for Valuable Papers And Records (Other Than Electronic Data) for limited coverage for valuable papers and records other than those which exist as electronic data;
- p. Vehicles or self-propelled machines (including aircraft or watercraft) that:
  - (1) Are licensed for use on public roads; or
  - (2) Are operated principally away from the described premises.

This paragraph does not apply to:

  - (a) Vehicles or self-propelled machines or autos you manufacture, process or warehouse;
  - (b) Vehicles or self-propelled machines, other than autos, you hold for sale;
  - (c) Rowboats or canoes out of water at the described premises; or
  - (d) Trailers, but only to the extent provided for in the Coverage Extension for Non-owned Detached Trailers; or
- q. The following property while outside of buildings:
  - (1) Grain, hay, straw or other crops;
  - (2) Fences, radio or television antennas (including satellite dishes) and their lead-in wiring, masts or towers, trees, shrubs or plants (other than trees, shrubs or plants which are “stock” or are part of a vegetated roof), all except as provided in the Coverage Extensions.

CP 00 10 10 12

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**There are 17 categories of Property Not Covered**

- Some excluded because it is customarily insured under more specialized policies
- Some excluded because it is relatively unsuceptible to loss
- Some excluded because it is more susceptible to loss
- Exceptions made for certain types of property held for sale by named insured
- Restricted coverage for certain types of property

Endorsement available:

**Additional Covered Property CP 14 10 06 95**

- Expands the definition of Covered Property
- Can be used to buy back certain property that is included in Property Not Covered
- Important to include the values in the Limit Of Insurance
- An example is the named insured has a fence for which coverage is wanted

## CP Exhibit

TYPE OF PROPERTY NOT COVERED	POSSIBLE COVERAGE BUY BACK
Accounts, bills, currency, food stamps or other evidences of debt, money, notes or securities	Commercial Crime Coverage
Animals, unless boarded or "your stock"	Additional Covered Property CP 14 10, or Animal Mortality Coverage Form IH 00 69
Autos held for sale	Auto Dealers Coverage Form CA 00 25
Bridges, roadways, walks, patios or other paved surfaces	Additional Covered Property, or Inland Marine Coverage Forms CP 1410
Contraband, illegal transportation/trade	Not insurable under current laws
Excavations, grading, backfilling or filling	Additional Covered Property CP 1410
Foundations of buildings, structures, machinery	Additional Covered Property CP 1410
Land, water, growing crops or lawns (other than lawns which are part of a vegetated roof)	Crop Hail Coverage or Multi-Peril Crop Insurance (MPCI)
Airborne or waterborne personal property	Inland Marine Coverage Forms, or Ocean Marine Coverage Forms
Bulkheads, pilings, piers, wharves or docks	Additional Covered Property, or Inland Marine Coverage Forms CP 1410
Property covered elsewhere	BPPCF pays excess
Retaining walls	Additional Covered Property CP 1410
Underground pipes flues or drains	Additional Covered Property CP 1410
Electronic data (except stock of prepackaged software or electronic data which is integrated into the building operational systems)	E-Commerce CP 04 30 (Limited) or Inland Marine Coverage Forms
Research, replace, restore information on valuable papers and records	Accounts Receivable Coverage Form CM 00 67; Valuable Papers & Records Coverage Form CM 00 67
Vehicles or self-propelled machines...	Additional Covered Property CP 14 10 Limited Coverage For Unmanned Aircraft (Scheduled And/Or Blanket Coverage CP 04 14)
Certain outdoor property	Fences –Additional Covered Property CP 14 10 Trees –Outdoor Trees, Shrubs & Plants CP 14 30 Antennas –Radio or TV Antennas CP 14 50, or Radio And TV Towers And Equipment Coverage Form IH 00 77

<b>Warning</b>	The value of these items should not be included in the Limits Of Insurance unless they have been covered under CP 14 10 06 95.
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This exhibit should be used solely as a guide. Please read the policy.



## Knowledge Check 2

1. Which are the categories of Covered Property under an unendorsed CPP?
  - a. Building, Your Business Personal Property, Personal Property of Others
  - b. Building and Business Personal Property Only
  - c. Building, Business Personal Property, Leased Equipment
  - d. Building, Your Business Personal Property, Personal Property of Employees
2. The named insured has a CPP covering their owned building and their business personal property. Indicate which of the following items are covered under Building or as Your Business Personal Property.

	Building	Your Business Personal Property
a. Fixtures, including outdoor fixtures		
b. Furniture and fixtures		
c. Permanently installed machinery or equipment		
d. Fire extinguishing to service the building		

3. Indicate which of the following are Covered Property and Property Not Covered under the BPPCF?

	Covered Property	Property Not Covered
a. Retaining walls that are a part of a building		
b. Paved surfaces such as a parking lot		
c. Underground pipes, flues or drains		
d. Building foundations, including those below the lowest basement floor		

## Methods of Writing Commercial Property Insurance

---

### Learning Objective 3:

Using knowledge of Covered Property in Building and Personal Property Coverage Form including:

- Specific Coverage,
- Scheduled Coverage,
- Blanket Coverage
- Key endorsements

the participant will be able to distinguish the advantages and disadvantages of writing a policy on a blanket basis and describe the endorsements that are available to handle fluctuating values.

---

Before going further into the BPPC Form, we will address the methods of writing Commercial Property Insurance.

### Specific Coverage

- One location
- Specific amount of insurance applies to each type of property

*Example:*

	<u>Location #1</u>
<i>Building</i>	<i>\$500,000</i>
<i>Your Business Personal Property</i>	<i>\$300,000</i>

## Scheduled Coverage

- Two or more locations
- Still a specific amount of insurance applies to each type of property at each separate location scheduled

### Example:

	<u>Location #1</u>
<i>Building</i>	<i>\$500,000</i>
<i>Your Business Personal Property</i>	<i>\$300,000</i>
	<u>Location #2</u>
<i>Building</i>	<i>\$800,000</i>
<i>Your Business Personal Property</i>	<i>\$400,000</i>

## Blanket Coverage

Two options

1. One limit that applies to more than one type of property  
(e.g., Building and Your Business Personal Property) at the same location

### Example

	<u>Location #1</u>
<i>Building</i>	<i>\$500,000</i>
<i>Your Business Personal Property</i>	<i>\$300,000</i>
<i>Blanket Limit on Building and YBPP</i>	<i>\$800,000</i>

2. One limit that applies to one or more types of property  
(e.g., just buildings, just business personal property or buildings and business personal property combined) at two or more locations

**Example**

<u>Location 1</u>	<u>Location 2</u>	<u>Location 3</u>
Bldg. \$200,000	Bldg. \$300,000	Bldg. \$500,000
<b>Blanket Limit on Buildings = \$1,000,000</b>		

**Example**

<u>Location 1</u>	<u>Location 2</u>	<u>Location 3</u>
BPP \$100,000	BPP \$200,000	BPP \$300,000
<b>Blanket Limit on Your Business Personal Property = \$600,000</b>		

**Example**

<u>Location 1</u>	<u>Location 2</u>	<u>Location 3</u>
Bldg. \$200,000	Bldg. \$300,000	Bldg. \$500,000
BPP \$100,000	BPP \$200,000	BPP \$300,000
<b>Blanket Limit on Buildings and Your Business Personal Property = \$1,600,000</b>		

### Coinsurance is required

- Options are normally 90% or 100%
- Applies to the total blanket limit

### Rates

- Either the highest 80% coinsurance rate of any type of property included in the coverage applies to all items, or an average rate may be used – average rates apply to all items
- A 90% coinsurance requirement receives the 80% coinsurance credit, and a 100% coinsurance requirement receives the 90% coinsurance credit
- Rate shall remain in effect for no more than one year before re-computation
- A sworn statement of values must be filed with insurer annually, prior to renewal

### Specific categories

- Can be written on specific categories of property (e.g., stock only, improvements and betterments)

## **Advantages and Disadvantages/Special Considerations when Writing Blanket Coverage**

### **Advantages of blanket coverage**

1. Named insured can apply insurance where needed when more than one type of property is covered on a blanket basis
2. Handles fluctuating values between locations or fire-rated divisions
3. Reporting forms easier to handle
4. Named insured may have 100% insurance to value at each location, but only has to carry 90% insurance to value for all locations combined

### **Disadvantages/Special Considerations when writing blanket coverage**

1. 90% or 100% coinsurance required
2. Blanket may not be possible because of underwriting restrictions or form restrictions
3. Statement of values must be obtained from named insured listing each item and amount of coverage
4. Rates for one year only – rates either per item or average (option of carrier)
5. Must have same causes of loss for all covered property
6. Must list all ownership interests with multiple locations



CP Exhibit  
Statement of Values

Item #	Location/Occupancy	Coverage	100% Value	80% Rate	Premium
1	Hardware Store 101 Main	Building	\$250,000	.05	\$125
2	Personal Property 101 Main	PP	\$100,000	.10	\$100
3	Auto Parts Store 103 Sycamore	Building	\$500,000	.20	\$1000
4	Personal Property 103 Sycamore	PP	\$250,000	.10	\$250
<hr/>					
Sum of Premiums	= \$1,475				
Sum of Values	= \$1,100,000				
Blanket Rate	= \$1,475 divided by \$1,100,000				
	= 13.4 cents per \$100 of insurance				

Quicksand Mutual Insurance Company  
CP Coverage Parts Declaration Page  
Eddie's Hardware and Automotive Inc.

<u>Premises</u>	<u>Bldg.</u>	<u>Coverage</u>	<u>Limits</u>	<u>Cause of Loss</u>	<u>Coinsurance</u>
1&2	Blanket	A	\$1,100,000	Special	90%
1&2	Blanket	B	Included	Special	90%
	N/A	C	N/A	--	--

If indicated by "X" the following apply:

RC (X)                                      Agreed Value                                      Inflation Guard (X)  
4%

A = Building                                      B = Business Personal Property                                      C = Personal Property of Others

This exhibit should be used solely as a guide. Please read the policy.

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**

<b>Premises Number:</b>		<b>Building Number:</b>		<b>Margin Clause:</b>	%
<b>Description Of Property:</b>					
<b>Premises Number:</b>		<b>Building Number:</b>		<b>Margin Clause:</b>	%
<b>Description Of Property:</b>					
<b>Premises Number:</b>		<b>Building Number:</b>		<b>Margin Clause:</b>	%
<b>Description Of Property:</b>					
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.

Actual loss payment will be determined based on the amount of loss or damage subject to all applicable policy provisions including the Limits of Insurance Condition, Coinsurance, Deductible and Valuation Conditions. But the actual loss payment, for each building, for the contents of each building or for the contents at each premises, will not exceed the maximum loss payable as described above and will not exceed the Blanket Limit of Insurance.

The Margin Clause does not increase the Blanket Limit of Insurance.

CP 12 32 06 07

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## Commercial Property Endorsements That Address Changing/Fluctuating Values

### Limitation On Loss Settlement – Blanket Insurance (Margin Clause) CP 12 32 06 07

- Limits maximum amount payable for any item to the percentage shown in the Schedule times the latest reported statement of values
- Applies to buildings and contents
- ***Severely restricts the “blanket concept”!***

#### CP Exhibit

##### How Margin Clause Applies

- Buildings #1 through #3 are covered under a Blanket Limit Of Insurance of \$4,500,000
- The combined value of these three buildings at the time of loss is \$5,000,000
- There is a coinsurance requirement of 90% ( $.90 \times \$5,000,000 = \$4,500,000$ ); therefore, no coinsurance penalty

Value of Building #1 on Statement of Values	\$1,000,000
Margin Clause Percentage	110%
Maximum Loss Payable Building #1 ( $\$1,000,000 \times 1.10$ )	\$1,100,000
Amount of Loss to Building #1	\$1,200,000
Deductible	\$10,000

Step (1): Amount of loss minus Deductible  
 $(\$1,200,000 - \$10,000 = \$1,190,000)$

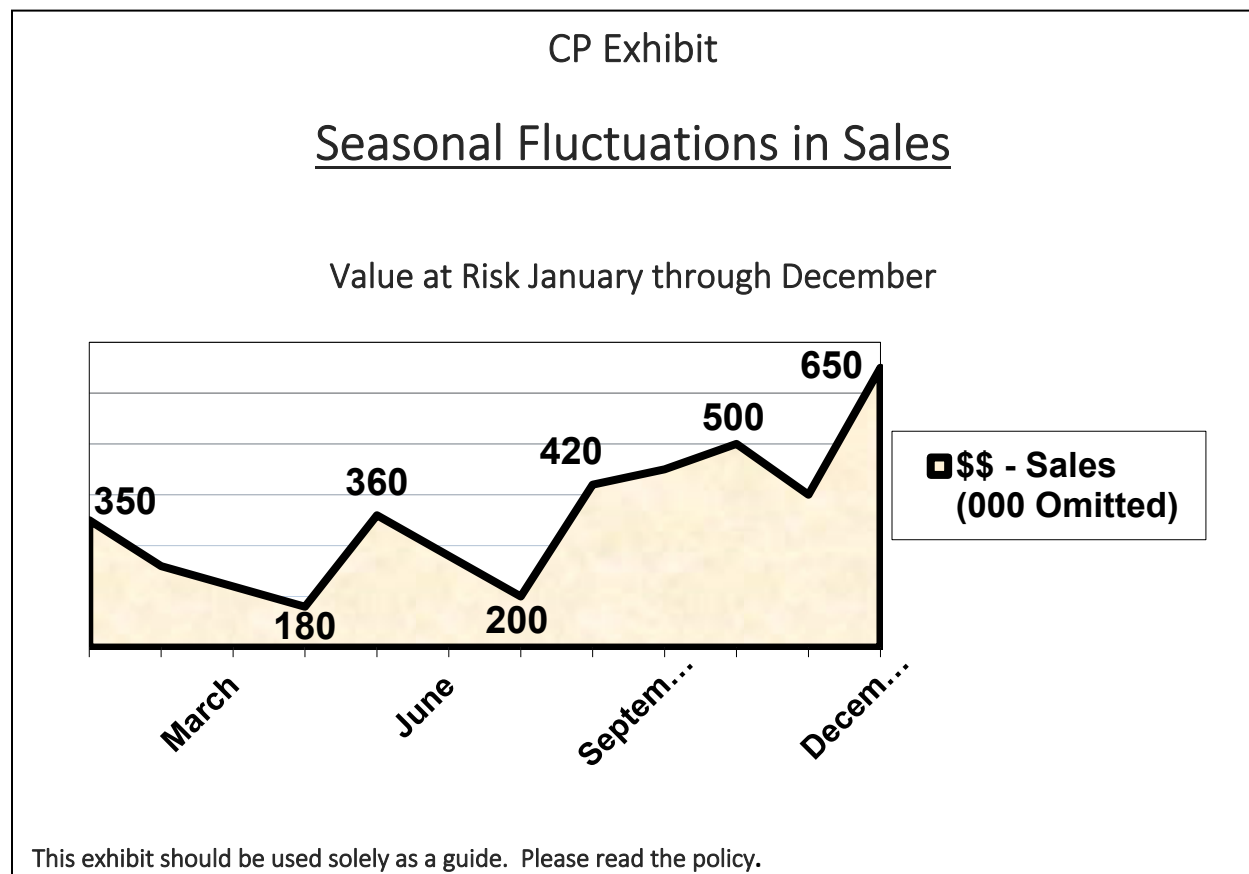
Step (2): Since \$1,190,000 is more than the maximum loss payable, insurer will pay \$1,100,000

**Pays \$1,100,000**

This exhibit should be used solely as a guide. Please read the policy.

### Peak Season CP 12 30

- Allows named insured to increase coverage for a specified number of days to reflect predictable (i.e., planned/expected) seasonal increases in personal property inventory
- May be written for any number of periods within the policy term (cannot extend beyond policy term)
- Specifies which dates the policy limits are increased
- Endorsement shows the additional amount needed during the peak season, not the total limit
- May not be written on a Value Reporting Form or on property written on a blanket basis
- Additional premium is pro-rated for the selected periods



**Value Reporting Form CP 13 10**

- Designed for named insureds with fluctuating personal property values or changing locations
- Provides means to accurately measure changing values of personal property in order to provide adequate coverage and charge appropriate premium
- Named insured must have the willingness and ability to make the accurate and timely required periodic reports
- Eligible property
  - Personal property of the named insured
  - Personal property of others
  - Stock only
- Premium

**C. Premium Adjustment**

For Covered Property to which this endorsement applies:

1. The premium charged at the inception of each policy year is an advance premium. We will determine the final premium for this insurance after the policy year, or expiration, based on the average of your reports of value.
2. Based on the difference between the advance premium and the final premium, for each policy year, we will:
  - a. Charge additional premium; or
  - b. Return excess premium.

The due date for any additional premium is the date shown as the due date on the bill.

CP 13 10 04 02

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- Premium paid at policy inception is considered an *advance premium*
- *Final premium* is determined at the end of the policy year based on the average reports of value that the named insured submitted
- At the end of the policy year difference between the advance premium and the final premium is calculated then either paid by or returned

- Reporting Provisions
  - On a new policy, the first report is due 60 days after the end of the “reporting period”, and the second report is due concurrent with the first report
  - On a renewal policy, the first report is due 30 days after the end of the first “reporting period”
  - All subsequent reports must be filed within 30 days of the end of each “reporting period”
- Reports can be based on daily, weekly, monthly, quarterly or policy year values
  - Daily, weekly and monthly values must be reported within 30 days of each month in which they fall
  - Quarterly reports must be reported within 30 days of the last day of March, June, September and December
  - Policy year reports are due within 30 days of the end of the policy anniversary date

- Correct reporting
  - Even if the loss amount exceeds the reported amount, the entire provisional Limit Of Insurance is available when the loss follows an accurate report

**Example:**

House Depot has a value reporting form with a provisional limit of \$1,000,000. Their report for February was received on March 15<sup>th</sup> showing values of \$800,000. On April 26<sup>th</sup> they suffered a fire loss of \$1,000,000. An audit of their books showed the actual values for the month of February were accurate. How much will their policy pay?

**Answer: \$1,000,000**

- Full Reporting
  - Reports **MUST** be accurate! If not accurate, the DID/SHOULD formula will apply!

**Example:**

House Depot has a value reporting form with a provisional limit of \$1,000,000. Their report for March was received on April 17<sup>th</sup> showing values of \$400,000. On April 26<sup>th</sup> they suffered a fire loss of \$200,000. An audit of their books showed the actual values for the month of March were \$800,000. How much will their policy pay?

$$\frac{\text{Inventory Reported (DID)}}{\text{Actual Inventory (SHOULD)}} \times \text{Loss} = \text{Recovery (up to provisional limit of insurance)}$$

**Answer: \$100,000**

- Reports in Excess of Limit Of Insurance
  - Reports in excess of Limit Of Insurance will be used to determine final premium, but in the event of loss, policy will not pay more than the Limit Of Insurance

**Example:**

House Depot's April report was received on May 24<sup>th</sup> showing accurate values of \$1,200,000. On May 30<sup>th</sup>, they had another fire which destroyed \$1,100,000 of inventory. How much will their policy pay?

**Answer: \$1,000,000**

- Failure To Submit Reports
  - Reports **MUST** be on time!
  - If first report is not filed, policy will not pay more than 75% of what it would otherwise have paid

**Example:**

*Holly's Wholesale Hosiery was originally written on a value reporting form with a provisional limit of \$800,000 effective January 1<sup>st</sup>. Holly had never been on a reporting form before, and she completely forgot to assign someone to send in the reports. On April 20<sup>th</sup>, she had a theft loss of \$100,000 of inventory. How will her policy respond?*

**Answer: \$75,000**

- Subsequent reports late
  - If named insured begins reporting, but fails to file a subsequent report, policy will pay no more than the values shown on the most recent report for that location

**Example:**

*Holly finally started sending in her reports. The April and May reports were on time and accurate. The May report showed values of \$300,000. No further reports were filed. On August 10<sup>th</sup> Holly received a large shipment of goods and on August 11<sup>th</sup> a fire destroyed \$700,000 worth of inventory. How much will her policy pay?*

**Answer: \$300,000**

- Treatment of "Specific Insurance"
  - Reports must include values of any "specific insurance", but policy is excess over "specific insurance" and "specific insurance" values will not be included in premium calculation



## Value Reporting Examples

Limit of Insurance: \$100,000

Policy Period: 1/1/18 – 1/1/19

<i>First Report Late</i>	<i>Subsequent Reports Late</i>	<i>Under Reported</i>	<i>In Excess Report</i>
<p><i>Policy pays 75% of amount that would otherwise would have been paid</i></p> <p><u>Example:</u> <i>No report submitted</i></p> <p><i>\$100,000 loss on 4/20/18</i></p> <p><i>Policy pays \$75,000</i></p>	<p><i>Policy pays no more than last report of values</i></p> <p><u>Example:</u> <i>Last report rec'd on 5/15/18 with April values of \$82,000</i></p> <p><i>\$100,000 loss on 8/10/18</i></p> <p><i>Policy pays \$82,000</i></p>	<p><i>Policy pays the percentage reported</i></p> <p><u>Example:</u> <i>July report rec'd on 8/25/18</i></p> <p><i>Reported values \$50,000</i></p> <p><i>Actual values \$100,000</i></p> <p><i>\$40,000 loss on 9/5/18</i></p> <p><math display="block">\frac{\\$ 50,000}{\\$100,000} = \frac{1}{2}</math></p> <p><i>Policy pays \$20,000</i></p>	<p><i>Policy limit applies</i></p> <p><u>Example:</u> <i>Sept report rec'd on 10/20/18 with values of \$125,000</i></p> <p><i>\$125,000 loss on 10/27/18</i></p> <p><i>Policy pays \$100,000</i></p>

[illegible]



## Knowledge Check 3

1. A named insured has a CPP written on a value reporting form with a monthly reporting period on the Business Personal Property (BPP). The insured has a limit of \$500,000 on BPP. Indicate which of the following is an accurate statement:
  - a. After four months, the insured who has never submitted a report has a \$10,000 covered loss to BPP. The insured will only be able to collect 75% of the covered loss.
  - b. After four months, the insured who has never submitted a report has a \$10,000 covered loss to BPP. The insured will be able to receive 100% of this loss since the CPP will pay based on the policy limit.
  
2. The insured has been reporting on time but underreporting their values on all their reports. In the June report, they should have reported \$400,000, but they actually reported \$200,000. A claim occurred in early August with a loss of \$100,000. Indicate which of the following is an accurate statement:
  - a. At the time of loss, they will only be able to receive 50% of the loss.
  - b. At the time of loss, they will be able to receive the full amount since the loss was less than the reported amount.

### **Learning Objective 4:**

Using knowledge of the six Additional Coverages in the Building and Personal Property Coverage Form the participants will be able to explain how coverage applies in the event of a loss, and the endorsements available to modify coverage.

---

In this section, we are now back to the BPPC Form to discuss the six Additional Coverages. These are coverages you get no matter what.

Six Additional Coverages:

- a. Debris Removal
- b. Preservation Of Property
- c. Fire Department Service Charge
- d. Pollutant Clean-up And Removal
- e. Increased Cost Of Construction
- f. Electronic Data

#### 4. Additional Coverages

##### a. Debris Removal

- (1) Subject to Paragraphs (2), (3) and (4), we will pay your expense to remove debris of Covered Property and other debris that is on the described premises, when such debris is caused by or results from a Covered Cause of Loss that occurs during the policy period. The expenses will be paid only if they are reported to us in writing within 180 days of the date of direct physical loss or damage.
- (2) Debris Removal does not apply to costs to:
  - (a) Remove debris of property of yours that is not insured under this policy, or property in your possession that is not Covered Property;
  - (b) Remove debris of property owned by or leased to the landlord of the building where your described premises are located, unless you have a contractual responsibility to insure such property and it is insured under this policy;
  - (c) Remove any property that is Property Not Covered, including property addressed under the Outdoor Property Coverage Extension;
  - (d) Remove property of others of a type that would not be Covered Property under this Coverage Form;
  - (e) Remove deposits of mud or earth from the grounds of the described premises;
  - (f) Extract "pollutants" from land or water; or
  - (g) Remove, restore or replace polluted land or water.

CP 00 10 10 12

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##### a. Debris Removal

- (1) Covered Property as well as some other property on the described premises from a Covered Cause of Loss
  - Must be reported to in writing within 180 days of the date of direct physical loss or damage
- (2) Does NOT apply to:
  - Property that is not/would not be Covered Property
  - Deposits of mud or earth
  - Extract pollutants from land or water
  - Polluted land or water

#### 4. Additional Coverages

##### a. Debris Removal

(3) Subject to the exceptions in Paragraph (4), the following provisions apply:

- (a) The most we will pay for the total of direct physical loss or damage plus debris removal expense is the Limit of Insurance applicable to the Covered Property that has sustained loss or damage.
- (b) Subject to (a) above, the amount we will pay for debris removal expense is limited to 25% of the sum of the deductible plus the amount that we pay for direct physical loss or damage to the Covered Property that has sustained loss or damage. However, if no Covered Property has sustained direct physical loss or damage, the most we will pay for removal of debris of other property (if such removal is covered under this Additional Coverage) is \$5,000 at each location.

(4) We will pay up to an additional \$25,000 for debris removal expense, for each location, in any one occurrence of physical loss or damage to Covered Property, if one or both of the following circumstances apply:

- (a) The total of the actual debris removal expense plus the amount we pay for direct physical loss or damage exceeds the Limit of Insurance on the Covered Property that has sustained loss or damage.
- (b) The actual debris removal expense exceeds 25% of the sum of the deductible plus the amount that we pay for direct physical loss or damage to the Covered Property that has sustained loss or damage.

Therefore, if (4)(a) and/or (4)(b) applies, our total payment for direct physical loss or damage and debris removal expense may reach but will never exceed the Limit of Insurance on the Covered Property that has sustained loss or damage, plus \$25,000

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(3) The most paid for direct physical loss plus debris removal expense is the applicable Limit of Insurance

- Amount for debris removal expense is limited to 25% [amount insurer pays plus deductible] unless no Covered Property has sustained direct physical loss or damage – then maximum of \$5,000

(4) Pays up to an additional \$25,000 if the Limit Of Insurance is exhausted or debris removal expenses exceed the limitation

**4. Additional Coverages****a. Debris Removal****(5) Examples**

The following examples assume that there is no Coinsurance penalty.

**Example 1**

Limit of Insurance:	\$ 90,000
Amount of Deductible:	\$ 500
Amount of Loss:	\$ 50,000
Amount of Loss Payable:	\$ 49,500
	(\$50,000 – \$500)
Debris Removal Expense:	\$ 10,000
Debris Removal Expense Payable:	\$ 10,000
(\$10,000 is 20% of \$50,000.)	

The debris removal expense is less than 25% of the sum of the loss payable plus the deductible. The sum of the loss payable and the debris removal expense (\$49,500 + \$10,000 = \$59,500) is less than the Limit of Insurance. Therefore, the full amount of debris removal expense is payable in accordance with the terms of Paragraph (3).

**Example 2**

Limit of Insurance:	\$ 90,000
Amount of Deductible:	\$ 500
Amount of Loss:	\$ 80,000
Amount of Loss Payable:	\$ 79,500
	(\$80,000 – \$500)
Debris Removal Expense:	\$ 40,000
Debris Removal Expense Payable	
Basic Amount:	\$ 10,500
Additional Amount:	\$ 25,000

The basic amount payable for debris removal expense under the terms of Paragraph (3) is calculated as follows: \$80,000 (\$79,500 + \$500) x .25 = \$20,000, capped at \$10,500. The cap applies because the sum of the loss payable (\$79,500) and the basic amount payable for debris removal expense (\$10,500) cannot exceed the Limit of Insurance (\$90,000).

The additional amount payable for debris removal expense is provided in accordance with the terms of Paragraph (4), because the debris removal expense (\$40,000) exceeds 25% of the loss payable plus the deductible (\$40,000 is 50% of \$80,000), and because the sum of the loss payable and debris removal expense (\$79,500 + \$40,000 = \$119,500) would exceed the Limit of Insurance (\$90,000). The additional amount of covered debris removal expense is \$25,000, the maximum payable under Paragraph (4). Thus, the total payable for debris removal expense in this example is \$35,500; \$4,500 of the debris removal expense is not covered.

To purchase additional limits, use **Debris Removal Additional Insurance CP 04 15 10 12**

Endorsement available:

**Debris Removal Additional Insurance CP 04 15 10 12**

- This endorsement provides a way to increase the \$25,000 for additional debris removal expense
- Important consideration with steel construction, buildings in remote or hard to get to locations, buildings attached to or in very close proximity to other buildings or structures, buildings containing pollutants or hazardous substances, etc.

**b. Preservation Of Property**

**4. Additional Coverages**

**b. Preservation Of Property**

If it is necessary to move Covered Property from the described premises to preserve it from loss or damage by a Covered Cause of Loss, we will pay for any direct physical loss or damage to that property:

- (1) While it is being moved or while temporarily stored at another location; and
- (2) Only if the loss or damage occurs within 30 days after the property is first moved.

CP 00 10 10 12

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True “all risk” coverage

- (1) Includes transit or while in temporary storage at another location
- (2) Within 30 days after the property is first moved

**Note:**

DOES NOT INCREASE LIMIT OF INSURANCE

**Example:**

*A large wildfire strikes the area of the named insured’s business. Anticipating that the fire will eventually make it to their office, the named insured loads all of the computers and furniture onto a rental truck in order to move the items out of harm’s way.*

*While on the highway, the named insured is involved in a collision causing the rental truck to overturn. While there is no coverage for the damage to the vehicle under the CPP, the Preservation Of Property Additional Coverage will cover the computers and furniture because they were in transit.*



**c. Fire Department Service Charge****4. Additional Coverages****c. Fire Department Service Charge**

When the fire department is called to save or protect Covered Property from a Covered Cause of Loss, we will pay up to \$1,000 for service at each premises described in the Declarations, unless a higher limit is shown in the Declarations. Such limit is the most we will pay regardless of the number of responding fire departments or fire units, and regardless of the number or type of services performed.

This Additional Coverage applies to your liability for fire department service charges:

- (1) Assumed by contract or agreement prior to loss; or
- (2) Required by local ordinance.

No Deductible applies to this Additional Coverage.

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- Up to \$1,000 unless a higher limit is shown on the Declarations
- Not for “voluntary payments”
- Deductible does not apply

**Note:**

IN ADDITION TO LIMIT OF INSURANCE

Endorsement available:

**Higher Limits CP 04 08 10 12**

With respect to each Coverage identified in the Schedule, the amount of insurance provided in this policy is replaced by the higher amount (Revised Amount Of Insurance) shown in the Schedule for such Coverage. All limitations and provisions which relate to the amount of insurance stated in the policy for such Coverage continue to apply with respect to the revised amount.

CP 04 08 10 12

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- Can be used as an alternative to stating a higher limit in the Declarations
- Amounts above the stated limit can be listed on a schedule and apply to various coverages
- Does not change the way the policy provides coverage

#### 4. Additional Coverages

##### d. Pollutant Clean-up And Removal

We will pay your expense to extract "pollutants" from land or water at the described premises if the discharge, dispersal, seepage, migration, release or escape of the "pollutants" is caused by or results from a Covered Cause of Loss that occurs during the policy period. The expenses will be paid only if they are reported to us in writing within 180 days of the date on which the Covered Cause of Loss occurs.

This Additional Coverage does not apply to costs to test for, monitor or assess the existence, concentration or effects of "pollutants". But we will pay for testing which is performed in the course of extracting the "pollutants" from the land or water.

The most we will pay under this Additional Coverage for each described premises is \$10,000 for the sum of all covered expenses arising out of Covered Causes of Loss occurring during each separate 12-month period of this policy.

CP 00 10 10 12

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##### d. Pollutant Clean Up And Removal

- Limited time/amount
- Extraction of pollutants only

##### Note:

IN ADDITION TO LIMIT OF INSURANCE

Endorsement available:

##### **Pollutant Clean UP and Removal Additional Aggregate Limit Of Insurance CP 04 07 10 91**

- Used to increase the amount of pollutant cleanup and removal coverage
- Subject to a deductible amount (specified in the Schedule of the endorsement), provides an additional Aggregate Limit Of Insurance (specified in the Schedule of the endorsement)
- Minimum deductible of \$1000

**4. Additional Coverages****e. Increased Cost Of Construction**

- (1) This Additional Coverage applies only to buildings to which the Replacement Cost Optional Coverage applies.
- (2) In the event of damage by a Covered Cause of Loss to a building that is Covered Property, we will pay the increased costs incurred to comply with the minimum standards of an ordinance or law in the course of repair, rebuilding or replacement of damaged parts of that property, subject to the limitations stated in **e.(3)** through **e.(9)** of this Additional Coverage.
- (3) The ordinance or law referred to in **e.(2)** of this Additional Coverage is an ordinance or law that regulates the construction or repair of buildings or establishes zoning or land use requirements at the described premises and is in force at the time of loss.
- (4) Under this Additional Coverage, we will not pay any costs due to an ordinance or law that:
  - (a) You were required to comply with before the loss, even when the building was undamaged; and
  - (b) You failed to comply with.
- (5) Under this Additional Coverage, we will not pay for:
  - (a) The enforcement of or compliance with any ordinance or law which requires demolition, repair, replacement, reconstruction, remodeling or remediation of property due to contamination by "pollutants" or due to the presence, growth, proliferation, spread or any activity of "fungus", wet or dry rot or bacteria; or
  - (b) Any costs associated with the enforcement of or compliance with an ordinance or law which requires any insured or others to test for, monitor, clean up, remove, contain, treat, detoxify or neutralize, or in any way respond to, or assess the effects of "pollutants", "fungus", wet or dry rot or bacteria.

CP 00 10 10 12

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**e. Increased Cost Of Construction**

- (1) Applies only to buildings to which the Replacement Cost Optional Coverage applies
- (2) Increased costs incurred to comply with enforcement of an ordinance or law in the course of repair, rebuilding or replacement of damaged parts
- (3) Refers to a current ordinance or law
- (4) Will not pay under certain circumstances
- (5) Does not pay for loss that results from "pollutants" and/or "fungus" or the costs related to cleanup and testing

**e. Increased Cost Of Construction**

...

- (6) The most we will pay under this Additional Coverage, for each described building insured under this Coverage Form, is \$10,000 or 5% of the Limit of Insurance applicable to that building, whichever is less. If a damaged building is covered under a blanket Limit of Insurance which applies to more than one building or item of property, then the most we will pay under this Additional Coverage, for that damaged building, is the lesser of \$10,000 or 5% times the value of the damaged building as of the time of loss times the applicable Coinsurance percentage.

The amount payable under this Additional Coverage is additional insurance.

- (7) With respect to this Additional Coverage:

- (a) We will not pay for the Increased Cost of Construction:

- (i) Until the property is actually repaired or replaced at the same or another premises; and
- (ii) Unless the repair or replacement is made as soon as reasonably possible after the loss or damage, not to exceed two years. We may extend this period in writing during the two years.

- (b) If the building is repaired or replaced at the same premises, or if you elect to rebuild at another premises, the most we will pay for the Increased Cost of Construction, subject to the provisions of **e.(6)** of this Additional Coverage, is the increased cost of construction at the same premises.

- (c) If the ordinance or law requires relocation to another premises, the most we will pay for the Increased Cost of Construction, subject to the provisions of **e.(6)** of this Additional Coverage, is the increased cost of construction at the new premises.

- (6) Limited to \$10,000 or 5% of the building's Limit of Insurance whichever is less

**Note:**

IN ADDITION TO LIMIT OF INSURANCE

- (7) With respect to Increased Cost of Construction (ICC) – Additional Coverage

- (a) Does not pay until the property is repaired or replaced as long as the repairs are made within two years – this can be extended by the insurer in writing
- (b) If the named insured elects to rebuild at another premises, the most that will be paid is the increased costs of construction at the original premises or the increased cost of construction limit of insurance
- (c) If the ordinance or law requires the building to be rebuilt at a new location, the most that will be paid is the ICC at the new premises or the ICC limit

- (8) This Additional Coverage is not subject to the terms of the Ordinance Or Law Exclusion to the extent that such Exclusion would conflict with the provisions of this Additional Coverage.
- (9) The costs addressed in the Loss Payment and Valuation Conditions and the Replacement Cost Optional Coverage, in this Coverage Form, do not include the increased cost attributable to enforcement of or compliance with an ordinance or law. The amount payable under this Additional Coverage, as stated in e.(6) of this Additional Coverage, is not subject to such limitation.

CP 00 10 10 12

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(8) Does not conflict with the Ordinance Or Law Exclusion

(9) Clarifies the amount payable

**Example:**

*You have an insured who has purchased a Limit Of Insurance for Building of \$200,000. Following a lightning strike, your insured suffers severe damage to their building's electrical system. Notably, the service panel is extensively damaged, and the local ordinance requires that it be replaced with circuit breakers that are more expensive than what was in place previously. You inform your insured that there is an additional \$10,000 in coverage available for the increased costs associated with repairing damaged property.*

**f. Electronic Data**

- (1) Under this Additional Coverage, electronic data has the meaning described under Property Not Covered, Electronic Data. This Additional Coverage does not apply to your "stock" of prepackaged software, or to electronic data which is integrated in and operates or controls the building's elevator, lighting, heating, ventilation, air conditioning or security system.
- (2) Subject to the provisions of this Additional Coverage, we will pay for the cost to replace or restore electronic data which has been destroyed or corrupted by a Covered Cause of Loss. To the extent that electronic data is not replaced or restored, the loss will be valued at the cost of replacement of the media on which the electronic data was stored, with blank media of substantially identical type.
- (3) The Covered Causes of Loss applicable to Your Business Personal Property apply to this Additional Coverage, Electronic Data, subject to the following:
  - (a) If the Causes Of Loss – Special Form applies, coverage under this Additional Coverage, Electronic Data, is limited to the "specified causes of loss" as defined in that form and Collapse as set forth in that form.
  - (b) If the Causes Of Loss – Broad Form applies, coverage under this Additional Coverage, Electronic Data, includes Collapse as set forth in that form.
  - (c) If the Causes Of Loss form is endorsed to add a Covered Cause of Loss, the additional Covered Cause of Loss does not apply to the coverage provided under this Additional Coverage, Electronic Data.
  - (d) The Covered Causes of Loss include a virus, harmful code or similar instruction introduced into or enacted on a computer system (including electronic data) or a network to which it is connected, designed to damage or destroy any part of the system or disrupt its normal operation. But there is no coverage for loss or damage caused by or resulting from manipulation of a computer system (including electronic data) by any employee, including a temporary or leased employee, or by an entity retained by you or for you to inspect, design, install, modify, maintain, repair or replace that system.
- (4) The most we will pay under this Additional Coverage, Electronic Data, is \$2,500 (unless a higher limit is shown in the Declarations) for all loss or damage sustained in any one policy year, regardless of the number of occurrences of loss or damage or the number of premises, locations or computer systems involved. If loss payment on the first occurrence does not exhaust this amount, then the balance is available for subsequent loss or damage sustained in but not after that policy year. With respect to an occurrence which begins in one policy year and continues or results in additional loss or damage in a subsequent policy year(s), all loss or damage is deemed to be sustained in the policy year in which the occurrence began.

**f. Electronic Data**

- \$2,500 aggregate limit available for each policy year
- Limit applies regardless of the number of occurrences/premises/locations/computer systems
- Coverage applies to data that has been destroyed/corrupted by one of the named Causes of Loss
- If a Covered Cause of Loss is added by endorsement, the additional Cause of Loss will not apply to this Additional Coverage
- Perils for this coverage include computer *virus*

**Note:**

IN ADDITION TO LIMIT OF INSURANCE

Endorsement available:

**Higher Limits CP 04 08 10 12**

- Another way to address this exposure is through **Electronic Data Protection (EDP) Policies**

### **Learning Objective 5:**

Using knowledge of the seven Coverage Extensions in the Building and Personal Property Coverage Form the participants will be able to explain how coverage applies in the event of a loss, and the endorsements available to modify coverage.

---

In this section we will review the seven Coverage Extensions under the BPPCF.

There are seven Coverage Extensions:

- a. Newly Acquired Or Constructed Property
- b. Personal Effects And Property Of Others
- c. Valuable Papers And Records (Other Than Electronic Data)
- d. Property Off-premises
- e. Outdoor Property
- f. Non-owned Detached Trailers
- g. Business Personal Property Temporarily In Portable Storage Units

#### **5. Coverage Extensions**

Except as otherwise provided, the following Extensions apply to property located in or on the building described in the Declarations or in the open (or in a vehicle) within 100 feet of the described premises.

If a Coinsurance percentage of 80% or more, or a Value Reporting period symbol, is shown in the Declarations, you may extend the insurance provided by this Coverage Part as follows:

The difference between getting Additional Coverages along with Coverage Extensions is that Coverage Extensions has a requirement that you **MUST** have at least 80% Coinsurance OR a Value Reporting Form



**a. Newly Acquired Or Constructed Property**

**(1) Buildings**

If this policy covers Building, you may extend that insurance to apply to:

- (a)** Your new buildings while being built on the described premises; and
- (b)** Buildings you acquire at locations, other than the described premises, intended for:
  - (i)** Similar use as the building described in the Declarations; or
  - (ii)** Use as a warehouse.

The most we will pay for loss or damage under this Extension is \$250,000 at each building.

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**a. Newly Acquired Or Constructed Property**

This coverage extension has 3 key parts.

- (1) Buildings
- (2) Your Business Personal Property
- (3) Period of Coverage

**(1) Buildings**

- (a)** Built on described premises
- (b)** Acquired locations for LIMITED occupancies (similar use as building described in Declarations or use as a warehouse)

**Note:**

NOT more than \$250,000 at each building

Endorsement available:

**Newly Acquired Or Constructed Property – Increased Limit CP 04 25 10 90**

- The \$250,000 is replaced by the Newly Acquired Or Constructed Property Limit shown in the Schedule of this endorsement

**a. Newly Acquired Or Constructed Property**

**(2) Your Business Personal Property**

**(a)** If this policy covers Your Business Personal Property, you may extend that insurance to apply to:

- (i)** Business personal property, including such property that you newly acquire, at any location you acquire other than at fairs, trade shows or exhibitions; or
- (ii)** Business personal property, including such property that you newly acquire, located at your newly constructed or acquired buildings at the location described in the Declarations.

The most we will pay for loss or damage under this Extension is \$100,000 at each building.

**(b)** This Extension does not apply to:

- (i)** Personal property of others that is temporarily in your possession in the course of installing or performing work on such property; or
- (ii)** Personal property of others that is temporarily in your possession in the course of your manufacturing or wholesaling activities.

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**(2) Your Business Personal Property – newly acquired**

- At newly acquired locations (with exceptions) or for newly constructed or acquired buildings at described location
- NOT at fairs, trade shows or exhibitions
- NOT more than \$100,000
- NOT property of others in temporary possession

**a. Newly Acquired Or Constructed Property****(3) Period Of Coverage**

With respect to insurance provided under this Coverage Extension for Newly Acquired Or Constructed Property, coverage will end when any of the following first occurs:

- (a)** This policy expires;
- (b)** 30 days expire after you acquire the property or begin construction of that part of the building that would qualify as covered property; or
- (c)** You report values to us.

We will charge you additional premium for values reported from the date you acquire the property or begin construction of that part of the building that would qualify as covered property.

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**(3) Period of coverage limited – earliest of:**

- (a)** Policy expiration
- (b)** 30 days after acquisition or begin construction
- (c)** Report values to insurer

**5. Coverage Extensions**

**b. Personal Effects And Property Of Others**

You may extend the insurance that applies to Your Business Personal Property to apply to:

- (1) Personal effects owned by you, your officers, your partners or members, your managers or your employees. This Extension does not apply to loss or damage by theft.
- (2) Personal property of others in your care, custody or control.

The most we will pay for loss or damage under this Extension is \$2,500 at each described premises. Our payment for loss of or damage to personal property of others will only be for the account of the owner of the property

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**b. Personal Effects And Property Of Others**

- (1) NO theft coverage for personal effects
- (2) Personal property of others in named insured's care, custody or control (CCC)

**Note:**

NOT more than \$2,500

**5. Coverage Extensions****c. Valuable Papers And Records (Other Than Electronic Data)**

- (1) You may extend the insurance that applies to Your Business Personal Property to apply to the cost to replace or restore the lost information on valuable papers and records for which duplicates do not exist. But this Extension does not apply to valuable papers and records which exist as electronic data. Electronic data has the meaning described under Property Not Covered, Electronic Data.
- (2) If the Causes Of Loss – Special Form applies, coverage under this Extension is limited to the "specified causes of loss" as defined in that form and Collapse as set forth in that form.
- (3) If the Causes Of Loss – Broad Form applies, coverage under this Extension includes Collapse as set forth in that form.
- (4) Under this Extension, the most we will pay to replace or restore the lost information is \$2,500 at each described premises, unless a higher limit is shown in the Declarations. Such amount is additional insurance. We will also pay for the cost of blank material for reproducing the records (whether or not duplicates exist) and (when there is a duplicate) for the cost of labor to transcribe or copy the records. The costs of blank material and labor are subject to the applicable Limit of Insurance on Your Business Personal Property and, therefore, coverage of such costs is not additional insurance.

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**c. Valuable Papers And Records – Cost Of Research**

- Cost to replace or restore if duplicates do not exist
- NOT if electronic data
- Named perils coverage only
- NOT more than \$2,500

Endorsement available:

**Higher Limits CP 04 08 10 12**

- Inland Marine Coverage Forms are also available to address the exposure associated with this and Accounts Receivable

**5. Coverage Extensions**

**d. Property Off-premises**

- (1) You may extend the insurance provided by this Coverage Form to apply to your Covered Property while it is away from the described premises, if it is:
  - (a) Temporarily at a location you do not own, lease or operate;
  - (b) In storage at a location you lease, provided the lease was executed after the beginning of the current policy term; or
  - (c) At any fair, trade show or exhibition.
- (2) This Extension does not apply to property:
  - (a) In or on a vehicle; or
  - (b) In the care, custody or control of your salespersons, unless the property is in such care, custody or control at a fair, trade show or exhibition.
- (3) The most we will pay for loss or damage under this Extension is \$10,000.

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**d. Property Off-premises**

- Temporarily at a location but NOT at location owned/leased/operated
- Storage at a leased location, if the lease executed after the beginning of the current policy term
- At any fair, trade show or exhibition
- NOT in or on a vehicle
- NOT in CCC of salespersons unless at faire, trade show or exhibition
- NOT more than \$10,000

Endorsement available:

**Specified Business Personal Property Temporarily Away From Premises CP 04 04 10 12**

- This endorsement extends Your BPP coverage to apply to business personal property indicated in the Schedule
- Property must be temporarily away from the described premises in the course of the named insured's daily business activities
- Must also be in the named insured's CCC or in the CCC of an authorized employee (including temporary employees and leased workers)
- Does not apply to:
  - "Stock", samples of "stock" or any of the named insured's products unless such property is at a fair, trade show or exhibition
  - Property in the CCC of the named insured's salespersons unless the property is in such CCC at a fair, trade show or exhibition
  - Property in the CCC of a common or contract carrier or bailee for hire
  - Property while airborne or waterborne
- Does not apply to theft from a land motor vehicle unless there is forced entry into a securely locked body or compartment of the vehicle, with visible marks of the forced entry
- The coverage provided under this endorsement does not apply to property while outside the Coverage Territory
- The Limit Of Insurance shown in the Schedule is the most paid in any one occurrence
- Cannot be stacked with other coverages

## 5. Coverage Extensions

### e. Outdoor Property

You may extend the insurance provided by this Coverage Form to apply to your outdoor fences, radio and television antennas (including satellite dishes), trees, shrubs and plants (other than trees, shrubs or plants which are "stock" or are part of a vegetated roof), including debris removal expense, caused by or resulting from any of the following causes of loss if they are Covered Causes of Loss:

- (1) Fire;
- (2) Lightning;
- (3) Explosion;
- (4) Riot or Civil Commotion; or
- (5) Aircraft.

The most we will pay for loss or damage under this Extension is \$1,000, but not more than \$250 for any one tree, shrub or plant. These limits apply to any one occurrence, regardless of the types or number of items lost or damaged in that occurrence.

Subject to all aforementioned terms and limitations of coverage, this Coverage Extension includes the expense of removing from the described premises the debris of trees, shrubs and plants which are the property of others, except in the situation in which you are a tenant and such property is owned by the landlord of the described premises.

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### e. Outdoor Property

- Limited property/limited perils (**FLARE**)
- NOT more than \$1,000 total (\$250 for any one tree, shrub or plant)
- Coverage includes debris removal expense

Endorsements available:

#### **Additional Covered Property CP 14 10 06 95**

- Used to insure fences
- Definition of Covered Property includes fences
- Subject to the Causes of Loss Form selected (Basic, Broad or Special)



**Radio Or Television Antennas CP 14 50 10 00**

- Used to insure radio or television antennas for additional limits and/or additional causes of loss
- Definition of Covered Property includes satellite dishes, lead-in wiring, masts or towers
- Subject to the Causes of Loss Form selected (Basic, Broad or Special), plus certain additional exclusions

**Trees, Shrubs, Plants CP 14 30 10 12**

- Used to insure outside trees, shrubs and plants for increased limits and/or additional causes of loss
- Limit of Insurance applies to each tree, shrub or plant
- Subject to the Causes of Loss Form selected (Basic, Broad, or Special), plus certain additional exclusions
- Loss caused by vehicles can be excluded

## 5. Coverage Extensions

### f. Non-owned Detached Trailers

- (1) You may extend the insurance that applies to Your Business Personal Property to apply to loss or damage to trailers that you do not own, provided that:
  - (a) The trailer is used in your business;
  - (b) The trailer is in your care, custody or control at the premises described in the Declarations; and
  - (c) You have a contractual responsibility to pay for loss or damage to the trailer.
- (2) We will not pay for any loss or damage that occurs:
  - (a) While the trailer is attached to any motor vehicle or motorized conveyance, whether or not the motor vehicle or motorized conveyance is in motion;
  - (b) During hitching or unhitching operations, or when a trailer becomes accidentally unhitched from a motor vehicle or motorized conveyance.
- (3) The most we will pay for loss or damage under this Extension is \$5,000, unless a higher limit is shown in the Declarations.
- (4) This insurance is excess over the amount due (whether you can collect on it or not) from any other insurance covering such property.

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### f. Non-owned Detached Trailers

- Used in business/in CCC/contractual responsibility for loss or damage
- NOT attached to any motorized vehicle/conveyance
- NOT during hitching/unhitching/accidentally unhitched
- NOT more than \$5,000
- Excess coverage

Endorsement available:

**Higher Limits CP 04 08 10 12**

**5. Coverage Extensions****g. Business Personal Property Temporarily In Portable Storage Units**

- (1) You may extend the insurance that applies to Your Business Personal Property to apply to such property while temporarily stored in a portable storage unit (including a detached trailer) located within 100 feet of the building or structure described in the Declarations or within 100 feet of the premises described in the Declarations, whichever distance is greater.
- (2) If the applicable Covered Causes of Loss form or endorsement contains a limitation or exclusion concerning loss or damage from sand, dust, sleet, snow, ice or rain to property in a structure, such limitation or exclusion also applies to property in a portable storage unit.
- (3) Coverage under this Extension:
  - (a) Will end 90 days after the business personal property has been placed in the storage unit;
  - (b) Does not apply if the storage unit itself has been in use at the described premises for more than 90 consecutive days, even if the business personal property has been stored there for 90 or fewer days as of the time of loss or damage.
- (4) Under this Extension, the most we will pay for the total of all loss or damage to business personal property is \$10,000 (unless a higher limit is indicated in the Declarations for such Extension) regardless of the number of storage units. Such limit is part of, not in addition to, the applicable Limit of Insurance on Your Business Personal Property. Therefore, payment under this Extension will not increase the applicable Limit of Insurance on Your Business Personal Property.
- (5) This Extension does not apply to loss or damage otherwise covered under this Coverage Form or any endorsement to this Coverage Form or policy, and does not apply to loss or damage to the storage unit itself.

Each of these Extensions is additional insurance unless otherwise indicated. The Additional Condition, Coinsurance, does not apply to these Extensions.

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**g. Business Personal Property Temporarily In Portable Storage Units**

- Temporarily stored in a portable storage unit located within 100 feet of building or structure or 100 feet of the described premises – whichever is greater
- 90 days maximum from when storage unit on premises
- NOT more than \$10,000
- NOT applicable if otherwise covered and NOT applicable to loss or damage to storage unit itself

Endorsement available:

**Higher Limits CP 04 08 10 12**



## Knowledge Check 4

1. The named insured is the landlord of a building and has a CPP with a limit of \$750,000 on the building. A fire occurs causing significant damage to the building and creating a large amount of debris that must be removed. Which of the following is an accurate statement?
  - a. Debris removal is an Additional Coverage and the CPP pays only for 25% of the direct damage loss.
  - b. Debris removal is an Additional Coverage and the CPP pays for 25% of a direct damage loss, plus up to an additional \$25,000 after the policy limits are exhausted.
  - c. The CPP does not pay for Debris Removal.
  - d. Debris removed is not cover under the CPP unless added by endorsement.
  
2. The named insured has a CPP covering both the building and business personal property. The building has been damaged by a covered cause of loss. The insured moves some of the contents to prevent damage. Which of the following is an accurate statement?
  - a. Preservation of Property is included as an Additional Coverage and provides coverage for only 24 hours following the loss.
  - b. Preservation of Property is included as an Additional Coverage and provides coverage for 30 days after covered property is first moved.
  - c. Preservation of Property is included as an Additional Coverage but only applies to the building, not business personal property.
  - d. Preservation of Property is included as an Additional Coverage for temporary storage, but does not apply to transit.

3. The named insured has a CPP with 80% coinsurance on a \$750,000 building. They purchase a warehouse valued at \$300,000. Do they have any coverage for this newly acquired property under the BPPCF?
- The BPPCF provides coverage for newly acquired property as a Coverage Extension up to \$250,000 but only for 30 days or policy expires, whichever occurs first.
  - The BPPCF provides coverage for newly acquired property as a Coverage Extension up to the policy building limit but only until the policy expires.
  - The unendorsed CPP does not provide coverage for newly acquired property.
4. Indicate whether the following items are an Additional Coverage or a Coverage Extension:

	Additional Coverage	Coverage Extension
a. Increased Cost of Construction		
b. Outdoor Property		
c. Fire Department Service Charge		
d. Personal Effects and Property of Others		

### **Learning Objective 6:**

Using knowledge of the Building and Personal Property Coverage Form including:

- Limits of Insurance
- Deductibles

the participant will be able to explain how the policy will respond in the event of loss or damage and describe the endorsements that can be used to modify these policy provisions.

---

In this section we will review the Exclusions and Limitations, the Limits Of Insurance, and the Deductible provisions under the BPPCF.

#### **B. Exclusions And Limitations**

See applicable Causes Of Loss form as shown in the Declarations.

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#### **B. Exclusions And Limitations**

Exclusions and limitations are specific to the Causes Of Loss Form shown in the Declarations. This will be discussed in detail in the Causes Of Loss section of this Institute.

### C. Limits Of Insurance

The most we will pay for loss or damage in any one occurrence is the applicable Limit Of Insurance shown in the Declarations.

The most we will pay for loss or damage to outdoor signs, whether or not the sign is attached to a building, is \$2,500 per sign in any one occurrence.

The amounts of insurance stated in the following Additional Coverages apply in accordance with the terms of such coverages and are separate from the Limit(s) Of Insurance shown in the Declarations for any other coverage:

1. Fire Department Service Charge;
2. Pollutant Clean-up And Removal;
3. Increased Cost Of Construction; and
4. Electronic Data.

Payments under the Preservation Of Property Additional Coverage will not increase the applicable Limit of Insurance.

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### C. Limits Of Insurance

- Applicable Limit Of Insurance shown in the Declarations
- NOT more than \$2,500 per sign whether attached or not
- Certain Additional Coverages have separate Limits Of Insurance

Endorsement available:

#### **Outside Signs CP 14 40 06 07**

- Used to insure outdoor signs for additional limits
- Replaces the \$2,500 limitation on signs in the BPPCF
- Limits must be scheduled on the endorsement
- Subject to the Causes of Loss Form selected (Basic, Broad or Special)

#### **D. Deductible**

In any one occurrence of loss or damage (hereinafter referred to as loss), we will first reduce the amount of loss if required by the Coinsurance Condition or the Agreed Value Optional Coverage. If the adjusted amount of loss is less than or equal to the Deductible, we will not pay for that loss. If the adjusted amount of loss exceeds the Deductible, we will then subtract the Deductible from the adjusted amount of loss and will pay the resulting amount or the Limit of Insurance, whichever is less.

When the occurrence involves loss to more than one item of Covered Property and separate Limits of Insurance apply, the losses will not be combined in determining application of the Deductible. But the Deductible will be applied only once per occurrence.

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#### **D. Deductible**

- Per occurrence AFTER application of coinsurance
- If more than one item of Covered Property is damaged and separate Limits of Insurance apply, losses are not combined in determining application of deductible – but deductible only applied once
- Deductibles can be modified to reduce insurance premiums or make a risk more acceptable



Endorsements selected for discussion:

**Deductibles By Location CP 03 29 04 18**

- Endorsement modifies the Deductible provision to enable an insured to have separate Deductibles on different locations
- The endorsement also enables the insured to have separate Deductibles on Windstorm or Hail and Theft at different locations, by indicating the appropriate symbol in the Schedule
- In the event of a single occurrence at multiple locations, a separate Deductible will apply for the damage at each location. A single Deductible will apply to all damage at each location

**Multiple Deductible Form (Fixed Dollar Deductibles) CP 03 20 04 18**

- Endorsement modifies the Deductible provision to enable an insured to have separate Deductibles on different locations
- The endorsement also enables the insured to have separate Deductibles on Windstorm or Hail, and Theft at different locations, by indicating the appropriate symbol in the Schedule
- In the event of a single occurrence at multiple locations, only the largest applicable Deductible applies. This differs from **Deductibles By Location CP 03 29 04 18**.

**Windstorm Or Hail Percentage Deductible CP 03 21 10 12**

- Endorsement modifies the Deductible by specifying either a 1%, 2%, or 5% Deductible for Windstorm or Hail
- A Deductible is calculated separately for each building and the personal property at each building
- The endorsement provides guidance on how the Deductible is calculated for both “specific insurance” and “blanket insurance”

### **Learning Objective 7:**

Using knowledge of the Loss Conditions in the Building and Personal Property Coverage Form the participant will be able to explain how the policy will respond in the event of loss or damage and explain the endorsements that can be used to modify these policy conditions.

---

In this section we will review the seven Loss Conditions provision under the BPPCF.

There are seven Loss Conditions.

1. Abandonment
2. Appraisal
3. Duties In The Event Of Loss Or Damage
4. Loss Payment
5. Recovered Property
6. Vacancy
7. Valuation

## E. Loss Conditions

The following conditions apply in addition to the Common Policy Conditions and the Commercial Property Conditions

### 1. Abandonment

#### E. Loss Conditions

The following conditions apply in addition to the Common Policy Conditions and the Commercial Property Conditions:

##### 1. Abandonment

There can be no abandonment of any property to us.

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### 2. Appraisal

#### 2. 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:

- a. Pay its chosen appraiser; and
- b. 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.

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- Used to determine value of property or amount of loss
- Can be requested by insurer or named insured
- Outlines selection of appraisers' process
- Outlines appraisal process including allocation of costs
- May be binding
- But coverage can still be denied

### 3. Duties In The Event Of Loss Or Damage

#### 3. Duties In The Event Of Loss Or Damage

- a. 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) At our request, give us complete inventories of the damaged and undamaged property. Include quantities, costs, values and amount of loss claimed.
  - (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) Send us a signed, sworn proof of loss containing the information we request to investigate the claim. You must do this within 60 days after our request. We will supply you with the necessary forms.
  - (8) Cooperate with us in the investigation or settlement of the claim.
- b. 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.

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- Outlines named insured's duties
- Gives insurer certain rights

**4. Loss Payment**

- a. In the event of loss or damage covered by this Coverage Form, at our option, we will either:
- (1) Pay the value of lost or damaged property;
  - (2) Pay the cost of repairing or replacing the lost or damaged property, subject to **b.** below;
  - (3) Take all or any part of the property at an agreed or appraised value; or
  - (4) Repair, rebuild or replace the property with other property of like kind and quality, subject to **b.** below.

We will determine the value of lost or damaged property, or the cost of its repair or replacement, in accordance with the applicable terms of the Valuation Condition in this Coverage Form or any applicable provision which amends or supersedes the Valuation Condition.

- b. The cost to repair, rebuild or replace does not include the increased cost attributable to enforcement of or compliance with any ordinance or law regulating the construction, use or repair of any property.
- c. We will give notice of our intentions within 30 days after we receive the sworn proof of loss.
- d. We will not pay you more than your financial interest in the Covered Property.
- e. 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 claims against us for the owners' property. We will not pay the owners more than their financial interest in the Covered Property.
- f. We may elect to defend you against suits arising from claims of owners of property. We will do this at our expense.
- g. 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 of the terms of this Coverage Part, and:
- (1) We have reached agreement with you on the amount of loss; or
  - (2) An appraisal award has been made.
- h. A party wall is a wall that separates and is common to adjoining buildings that are owned by different parties. In settling covered losses involving a party wall, we will pay a proportion of the loss to the party wall based on your interest in the wall in proportion to the interest of the owner of the adjoining building. However, if you elect to repair or replace your building and the owner of the adjoining building elects not to repair or replace that building, we will pay you the full value of the loss to the party wall, subject to all applicable policy provisions including Limits of Insurance, the Valuation and Coinsurance Conditions and all other provisions of this Loss Payment Condition. Our payment under the provisions of this paragraph does not alter any right of subrogation we may have against any entity, including the owner or insurer of the adjoining building, and does not alter the terms of the Transfer Of Rights Of Recovery Against Others To Us Condition in this policy.

**4. Loss Payment**

- a. Insurer's options
  - (1) Pay the value
  - (2) Pay the cost of repairing or replacing
  - (3) Take the property at an agreed or appraised value
  - (4) Repair, rebuild or replace the property with other property of like kind and quality
- b. The cost does not apply to *increased costs of construction*
- c. Insurer's option expressed within 30 days after receipt of proof of loss
- d. No more than named insured's financial interest
- e. Insurer may deal directly with owners of property
- f. Insurer may defend named insured at insurer's expense
- g. Insurer payment within 30 days of proof of loss if the named insured has complied with terms, and agreed on amount, or an appraisal award has been made
- h. Specific provisions for party wall

Endorsement available:

**Loss Payable Provisions CP 12 18 10 12**

- This endorsement is used to change the Loss Payment Condition to add other persons or organizations to be included in insurer's payment for loss or damage
- Used for:
  - Loss Payees
  - Lenders' Loss Payees
  - Contract Sellers
  - Building Owners
- Loss Payees, Contract Sellers, and Building Owners have no greater rights than the named insured – if claim is denied to named insured, claim will be denied to these persons/entities
- Lender's Loss Payee will have rights similar to those of a mortgageholder
- Lender's Loss Payee will receive notice of cancellation/nonrenewal

**5. Recovered Property**

**5. 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.

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- Notice of recovered property required by either named insured or insurer
- Insured's option as to accept return or not

**6. Vacancy**

**a. Description Of Terms**

- (1) As used in this Vacancy Condition, the term building and the term vacant have the meanings set forth in (1)(a) and (1)(b) below:
- (a) When this policy is issued to a tenant, and with respect to that tenant's interest in Covered Property, building means the unit or suite rented or leased to the tenant. Such building is vacant when it does not contain enough business personal property to conduct customary operations.
  - (b) When this policy is issued to the owner or general lessee of a building, building means the entire building. Such building is vacant unless at least 31% of its total square footage is:
    - (i) Rented to a lessee or sublessee and used by the lessee or sublessee to conduct its customary operations; and/or
    - (ii) Used by the building owner to conduct customary operations.
- (2) Buildings under construction or renovation are not considered vacant.

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**6. Vacancy**

**a. Description**

- (1) Defines the terms building and vacant that will be used in this condition – one for tenant, and one for landlord
- (a) Tenant – building is vacant when it does not contain enough business personal property to conduct customary operations
  - (b) Owner or general lessee – building is vacant unless at least 31% of its total square footage is rented to a lessee or sublessee and used by the lessee or sublessee to conduct its customary operations; and/or used by the building owner to conduct customary operations.
- (2) Buildings under construction or renovation are not considered vacant



**b. Vacancy Provisions**

If the building where loss or damage occurs has been vacant for more than 60 consecutive days before that loss or damage occurs:

- (1) We will not pay for any loss or damage caused by any of the following, even if they are Covered Causes of Loss:
  - (a) Vandalism;
  - (b) Sprinkler leakage, unless you have protected the system against freezing;
  - (c) Building glass breakage;
  - (d) Water damage;
  - (e) Theft; or
  - (f) Attempted theft.
- (2) With respect to Covered Causes of Loss other than those listed in **b.(1)(a)** through **b.(1)(f)** above, we will reduce the amount we would otherwise pay for the loss or damage by 15%.

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**b. Vacancy Provisions**

Applies when building has been vacant more than 60 consecutive days

- (1) Excludes loss from specifically listed causes even if they are Covered Causes of Loss
- (2) Payment reduced by 15% by other Causes of Loss

**Example:**

*The named insured rented a space and obtained insurance coverage but delayed moving in for three months. After three months, the named insured decided to move in and discovered that there was vandalism damage. According to witnesses, the losses occurred within the two weeks prior to the insured's discovery. Accordingly, the vandalism damage is not covered.*

**Example:**

*Four months ago, the named insured purchased a small building with four separate office spaces. The building is only 25% occupied. While in the process of finding tenants for the other 75% of the space, the building sustained significant damage from a fire. Since the occupancy did not meet the 31% threshold, the named insured's loss payment is reduced by 15%.*

Endorsements available:

**Vacancy Permit CP 04 50 07 88**

- Used to waive the Vacancy Loss Condition, allowing coverage to continue for a specified period when a building is deemed vacant beyond 60 consecutive days
- Can still exclude vandalism and/or sprinkler leakage

**Vacancy Changes CP 04 60 10 12**

- Used to change the 31% minimum use requirement by indicating the new percentage in the Schedule
- All other terms of the Vacancy Condition remain unchanged

**7. Valuation**

We will determine the value of Covered Property in the event of loss or damage as follows:

- a. At actual cash value as of the time of loss or damage, except as provided in **b.**, **c.**, **d.** and **e.** below.
- b. If the Limit of Insurance for Building satisfies the Additional Condition, Coinsurance, and the cost to repair or replace the damaged building property is \$2,500 or less, we will pay the cost of building repairs or replacement.

The cost of building repairs or replacement does not include the increased cost attributable to enforcement of or compliance with any ordinance or law regulating the construction, use or repair of any property.

However, the following property will be valued at the actual cash value, even when attached to the building:

- (1) Awnings or floor coverings;
- (2) Appliances for refrigerating, ventilating, cooking, dishwashing or laundering; or
- (3) Outdoor equipment or furniture.

...

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**7. Valuation**

- a. ACV except as otherwise provided
- b. Building damage \$2,500 or less/coinsurance satisfied, pays cost of repairs or replacement NOT including increased costs of construction

The following is ACV even when attached to a building

- (1) Awnings or floor coverings
- (2) Certain appliances
- (3) Outdoor equipment or furniture

## 7. Valuation

We will determine the value of Covered Property in the event of loss or damage as follows:

...

- c. "Stock" you have sold but not delivered at the selling price less discounts and expenses you otherwise would have had.
- d. Glass at the cost of replacement with safety-glazing material if required by law.
- e. Tenants' Improvements and Betterments at:
  - (1) Actual cash value of the lost or damaged property if you make repairs promptly.
  - (2) A proportion of your original cost if you do not make repairs promptly. We will determine the proportionate value as follows:
    - (a) Multiply the original cost by the number of days from the loss or damage to the expiration of the lease; and
    - (b) Divide the amount determined in (a) above by the number of days from the installation of improvements to the expiration of the lease.

If your lease contains a renewal option, the expiration of the renewal option period will replace the expiration of the lease in this procedure.

- (3) Nothing if others pay for repairs or replacement.

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- c. Stock (sold but not delivered) at selling price minus expenses not incurred
- d. Glass at cost of any required safety-glazing materials
- e. Special valuation for tenants' improvements and betterments

### Note:

As previously discussed, the Replacement Cost Optional Coverage may be activated on the Declaration. If so, then RC replaces ACV in this Valuation Loss Condition. The Replacement Cost Optional Coverage to be discussed in detail later in this presentation.

Endorsements selected for discussion that modify the Valuation Loss Condition:

**Manufacturer's Selling Price (Finished "Stock" Only) CP 99 30 06 95**

- Allows insured to be paid for the profit that would otherwise have been earned from the sale of finished stock had it not been damaged by an insured peril and had not yet been sold

**Market Value – Stock CP 99 31 07 88**

- Allows the insured to be paid the market value of stock that is bought and sold at an established market exchange where the market prices are posted and quoted

**Manufacturers Consequential Loss Assumption CP 99 02 07 88**

- Allows the insured to recover the reduction in value of undamaged stock in the process of manufacture that is caused by damage to other stock (e.g., businesses that manufacture products that are sold in matched sets, using the same materials for all parts of the set – when one part is damaged, the other part has less value)

**Functional Personal Property Valuation (Other Than Stock) CP 04 39 10 90**

- Allows the insured to replace personal property with the most closely equivalent property available
- Coinsurance does not apply

**Functional Building Valuation CP 04 38 09 17**

- Designed to insure an older building whose architectural style has become obsolete or simply unnecessary to the named insured's current use or for buildings the named insured would not or could not replace as is. Thus provides means to insure building to reflect use and not construction.
- In the event of total loss, payment will be for a "less costly building that is functionally equivalent..."
- In the event of partial loss, payment will be for "less costly material, if available, in the architectural style that existed before the loss..."
- **CAUTION!** If not repaired or replaced, only pays smallest of:
  - Limit of Insurance, or
  - Market value (defined term that means the price which the property might be expected to realize if offered for sale in a fair market), or
  - The cost to repair or replace with less costly material in the same architectural style.
- Coinsurance does not apply
- Ordinance of Law Coverage applicable under this endorsement
  - Not additional insurance
  - Losses under the following coverages are included within the Limit of Insurance shown in the endorsement schedule
    - Coverages A – Coverage For Loss To The Undamaged Portion Of The Building
    - Coverage B – Demolition Cost Coverage
    - Coverage C – Cost To Reconstruct In Compliance With An Ordinance Or Law

**Note:**

Ordinance or law issues must be considered when setting limits

- Post-Loss Ordinance Or Law Option available

**Increased Cost Of Loss And Related Expenses For Green Upgrades CP 04 02 10 12**

- Used to change the Valuation on Building and/or Your Business Personal Property to include coverage for the additional costs to repair or replace damaged covered property with materials and products that are recognized by a Green standards-setter such as Energy Star, LEED or Green Globes
- Coinsurance does not apply
- Does not apply to personal effects, property of others, leased property or stock
- Steps necessary to write
  - 1) A Limit must be selected for Green Upgrades – this is the maximum amount that will be paid for the Green Upgrades
  - 2) An Increased Cost of Loss percentage must be selected – choices are 10%, 20%, 30%, 40% or 50%. The most the policy will pay is the (amount paid for the loss to the damaged property plus the deductible) times the % selected
  - 3) Coverage for Related Expenses is optional. If desired, a Limit must be chosen. Related Expenses include:
    - Waste Reduction and Recycling
    - Design and Engineering Professional Fees
    - Certification Fees and Related Equipment Testing
    - Building Air-out and Related Air Testing
  - 4) If Business Income is included in the policy, the Period of Restoration is extended for up to 30 days to recognize the increased period of time attributable to green upgrades, however, the Limit is not increased. This 30-day extension may be changed to 60, 90, 120 or 180 days.

## Additional Conditions

In this section we will review the Additional Conditions provision under the BPPCF.

*Partial excerpt*

### F. Additional Conditions

The following conditions apply in addition to the Common Policy Conditions and the Commercial Property Conditions:

#### 1. Coinsurance

If a Coinsurance percentage is shown in the Declarations, the following condition applies:

- a. We will not pay the full amount of any loss if the value of Covered Property at the time of loss times the Coinsurance percentage shown for it in the Declarations is greater than the Limit of Insurance for the property.

Instead, we will determine the most we will pay using the following steps:

- (1) Multiply the value of Covered Property at the time of loss by the Coinsurance percentage;
- (2) Divide the Limit of Insurance of the property by the figure determined in Step (1);
- (3) Multiply the total amount of loss, before the application of any deductible, by the figure determined in Step (2); and
- (4) Subtract the deductible from the figure determined in Step (3).

We will pay the amount determined in Step (4) or the Limit of Insurance, whichever is less. For the remainder, you will either have to rely on other insurance or absorb the loss yourself.

...

- b. If one Limit of Insurance applies to two or more separate items, this condition will apply to the total of all property to which the limit applies.

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The following conditions apply in addition to the Common Policy Conditions and the Commercial Property Conditions

#### 1. Coinsurance

- Policy will not pay the full amount of any loss if the value at the time of loss times the Coinsurance percentage shown in the Declarations is greater than the Limit of Insurance for the property.

#### Note:

Do not confuse the coinsurance clause with the "80% Insurance to Value" clause in the BOP or Homeowners Policy. Coinsurance penalizes the insured in the event of a partial loss. The BOP or Homeowners clause uses the same formula for the basis for loss payment, but payment will not be less than actual cash value.



## 2. Mortgageholders

- a. The term mortgageholder includes trustee.
- b. We will pay for covered loss of or damage to buildings or structures to each mortgageholder shown in the Declarations in their order of precedence, as interests may appear.
- c. The mortgageholder has the right to receive loss payment even if the mortgageholder has started foreclosure or similar action on the building or structure.
- d. If we deny your claim because of your acts or because you have failed to comply with the terms of this Coverage Part, the mortgageholder will still have the right to receive loss payment if the mortgageholder:
  - (1) Pays any premium due under this Coverage Part at our request if you have failed to do so;
  - (2) Submits a signed, sworn proof of loss within 60 days after receiving notice from us of your failure to do so; and
  - (3) Has notified us of any change in ownership, occupancy or substantial change in risk known to the mortgageholder.

All of the terms of this Coverage Part will then apply directly to the mortgageholder.

- e. If we pay the mortgageholder for any loss or damage and deny payment to you because of your acts or because you have failed to comply with the terms of this Coverage Part:
  - (1) The mortgageholder's rights under the mortgage will be transferred to us to the extent of the amount we pay; and
  - (2) The mortgageholder's right to recover the full amount of the mortgageholder's claim will not be impaired.

At our option, we may pay to the mortgageholder the whole principal on the mortgage plus any accrued interest. In this event, your mortgage and note will be transferred to us and you will pay your remaining mortgage debt to us.

- f. If we cancel this policy, we will give written notice to the mortgageholder at least:
  - (1) 10 days before the effective date of cancellation if we cancel for your nonpayment of premium; or
  - (2) 30 days before the effective date of cancellation if we cancel for any other reason.
- g. If we elect not to renew this policy, we will give written notice to the mortgageholder at least 10 days before the expiration date of this policy.

## 2. Mortgageholders

- Separate rights
- Separate duties

[illegible]



## Knowledge Check 5

1. The named insured has a CPP with a building limit of \$1,000,000. The building has been vacant for 3 months. Which of the following is an accurate statement under the BPPCF?
  - a. There is no coverage under the BPPCF after a building has been vacant for more than 60 days.
  - b. There is coverage provided under the BPPCF up to 30 days but only for damage caused by the Covered Causes of Loss.
  - c. There is coverage for fire, but the payment is reduced by 10%.
  - d. There is no coverage after a building has been vacant for more than 60 consecutive days for certain Covered Causes of Loss and the payment on others is reduced by 15%.
  
2. The valuation loss condition under the BPPCF automatically provides coverage on an actual cash value basis except as otherwise provided. True or False?
  - a. True
  - b. False
  
3. The named insured owns an older building they want insured. If the building suffers a significant loss, they want to rebuild but with less costly material. Which of the following endorsement would modify coverage?
  - a. No endorsement is needed as a CPP written on an ACV basis will meet the needs for a partial loss.
  - b. Functional Building Valuation Endorsement
  - c. Selling Price Clause Endorsement

### **Learning Objective 8:**

Using knowledge of the Building and Personal Property Coverage Form, describe the purpose of the four Optional Coverages and how these coverages apply when activated on the Declarations Page.

---

In this section we will review the Optional Coverages provision under the BPPCF.

There are four Optional Coverages:

1. Agreed Value
2. Inflation Guard
3. Replacement Cost
4. Extension Of Replacement Cost To Personal Property Of Others

## G. Optional Coverages

If shown as applicable in the Declarations, the following Optional Coverages apply separately to each item:

### 1. Agreed Value

- a. The Additional Condition, Coinsurance, does not apply to Covered Property to which this Optional Coverage applies. We will pay no more for loss of or damage to that property than the proportion that the Limit of Insurance under this Coverage Part for the property bears to the Agreed Value shown for it in the Declarations.
- b. If the expiration date for this Optional Coverage shown in the Declarations is not extended, the Additional Condition, Coinsurance, is reinstated and this Optional Coverage expires.
- c. The terms of this Optional Coverage apply only to loss or damage that occurs:
  - (1) On or after the effective date of this Optional Coverage; and
  - (2) Before the Agreed Value expiration date shown in the Declarations or the policy expiration date, whichever occurs first.

### 2. Inflation Guard

- a. The Limit of Insurance for property to which this Optional Coverage applies will automatically increase by the annual percentage shown in the Declarations.
- b. The amount of increase will be:
  - (1) The Limit of Insurance that applied on the most recent of the policy inception date, the policy anniversary date, or any other policy change amending the Limit of Insurance, times
  - (2) The percentage of annual increase shown in the Declarations, expressed as a decimal (example: 8% is .08), times
  - (3) The number of days since the beginning of the current policy year or the effective date of the most recent policy change amending the Limit of Insurance, divided by 365.

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If triggered on the Declarations, the Optional Coverages apply separately to each item

### 1. Agreed Value

- Suspends Coinsurance

**BEWARE!** This does not remove the coinsurance, it suspends it!

- Has an expiration date

**Note:**

There is an additional premium charge of 5%

### 2. Inflation Guard

- Limit of Insurance increased by the percentage shown in the Declarations
- The amount increased changes daily throughout policy period
  - Pro rata premium charge (e.g., 8% annual increase – 4% additional premium)

## G. Optional Coverages

### 3. Replacement Cost

- a. Replacement Cost (without deduction for depreciation) replaces Actual Cash Value in the Valuation Loss Condition of this Coverage Form.
- b. This Optional Coverage does not apply to:
  - (1) Personal property of others;
  - (2) Contents of a residence;
  - (3) Works of art, antiques or rare articles, including etchings, pictures, statuary, marbles, bronzes, porcelains and bric-a-brac; or
  - (4) "Stock", unless the Including "Stock" option is shown in the Declarations.

Under the terms of this Replacement Cost Optional Coverage, tenants' improvements and betterments are not considered to be the personal property of others.

- c. You may make a claim for loss or damage covered by this insurance on an actual cash value basis instead of on a replacement cost basis. In the event you elect to have loss or damage settled on an actual cash value basis, you may still make a claim for the additional coverage this Optional Coverage provides if you notify us of your intent to do so within 180 days after the loss or damage.
- d. We will not pay on a replacement cost basis for any loss or damage:
  - (1) Until the lost or damaged property is actually repaired or replaced; and
  - (2) Unless the repair or replacement is made as soon as reasonably possible after the loss or damage.

With respect to tenants' improvements and betterments, the following also apply:

- (3) If the conditions in **d.(1)** and **d.(2)** above are not met, the value of tenants' improvements and betterments will be determined as a proportion of your original cost, as set forth in the Valuation Loss Condition of this Coverage Form; and
- (4) We will not pay for loss or damage to tenants' improvements and betterments if others pay for repairs or replacement.
- e. We will not pay more for loss or damage on a replacement cost basis than the least of **(1)**, **(2)** or **(3)**, subject to **f.** below:
  - (1) The Limit of Insurance applicable to the lost or damaged property;
  - (2) The cost to replace the lost or damaged property with other property:
    - (a) Of comparable material and quality; and
    - (b) Used for the same purpose; or
  - (3) The amount actually spent that is necessary to repair or replace the lost or damaged property.

If a building is rebuilt at a new premises, the cost described in **e.(2)** above is limited to the cost which would have been incurred if the building had been rebuilt at the original premises.

- f. The cost of repair or replacement does not include the increased cost attributable to enforcement of or compliance with any ordinance or law regulating the construction, use or repair of any property.

### **3. Replacement Cost**

- a. Replaces ACV in Loss Condition – Valuation
- b. Does NOT apply to:
  - (1) Personal property of others;
  - (2) Contents of a residence;
  - (3) Works of art, antiques or rare articles, including etchings, pictures, statuary, marbles, bronzes, porcelains and bric-a-brac; or
  - (4) "Stock", unless the Including "Stock" option is shown in the Declarations
- c. Claim may be made for ACV – intent to make RC claim within 180 days
- d. Must be repaired/replaced as soon as reasonably possible
  - Special provision for tenants' improvements and betterments
- e. Least of:
  - (1) The Limit of Insurance applicable;
  - (2) The cost to replace with other property:
    - (a) Of comparable material and quality; and
    - (b) Used for the same purpose; or
  - (3) The amount actually spent that is necessary to repair or replace
- f. DOES NOT APPLY to "increased costs of construction"

Endorsement selected for discussion:

**Increase In Rebuilding Expenses Following Disaster (Additional Expense Coverage On Annual Aggregate Basis) CP 04 09 10 12**

- This endorsement increases the Limit Of Insurance for expenses for labor and/or building materials for repair or replacement of the damaged property as a result of the disaster and the total cost of repair or replacement exceeds the applicable Limit Of Insurance due to such increase in expenses
- The endorsement has special conditions that must be met

C. The Additional Expense Coverage provided under this endorsement applies if all of the following conditions are met, subject to all limitations of this endorsement:

1. The event that caused the covered loss:
  - a. Results in declaration of a state of disaster by federal or state authorities; or
  - b. Occurs in close temporal proximity to the event that resulted in declaration of disaster by federal or state authorities;
2. Expenses for labor and/or building materials for repair or replacement of the damaged property increase as a result of the disaster and the total cost of repair or replacement exceeds the applicable Limit of Insurance due to such increase in expenses;
3. You elect to repair or replace the damaged building; and
4. You notified us, within 30 days of completion, of any improvements, alterations or additions to the building which increase the replacement cost of the building by 5% or more, and allowed us to adjust the Limit of Insurance, if necessary, to maintain the required insurance-to-value level.

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**G. Optional Coverages****4. Extension Of Replacement Cost To Personal Property Of Others**

- a. If the Replacement Cost Optional Coverage is shown as applicable in the Declarations, then this Extension may also be shown as applicable. If the Declarations show this Extension as applicable, then Paragraph **3.b.(1)** of the Replacement Cost Optional Coverage is deleted and all other provisions of the Replacement Cost Optional Coverage apply to replacement cost on personal property of others.

- b. With respect to replacement cost on the personal property of others, the following limitation applies:

If an item(s) of personal property of others is subject to a written contract which governs your liability for loss or damage to that item(s), then valuation of that item(s) will be based on the amount for which you are liable under such contract, but not to exceed the lesser of the replacement cost of the property or the applicable Limit of Insurance.

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**4. Extension Of Replacement Cost To Personal Property Of Others**

- a. Two actions required for this optional coverage to apply:
- Must have replacement cost on named insured's property
  - Must "trigger" replacement cost for personal property of others
- b. Payment limited to lesser of amount required by contract/replacement

## Definitions

### H. Definitions

1. "Fungus" means any type or form of fungus, including mold or mildew, and any mycotoxins, spores, scents or by-products produced or released by fungi.
2. "Pollutants" means any solid, liquid, gaseous or thermal irritant or contaminant, including smoke, vapor, soot, fumes, acids, alkalis, chemicals and waste. Waste includes materials to be recycled, reconditioned or reclaimed.
3. "Stock" means merchandise held in storage or for sale, raw materials and in-process or finished goods, including supplies used in their packing or shipping.

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- Helps clarify coverage provided



## Knowledge Check 6

1. The named insured has a CPP with both building and business personal property insured. Which of the following statement is true regarding Agreed Value?
  - a. Suspends coinsurance and there is no additional premium charge.
  - b. Removes coinsurance for an additional premium charge of 5%.
  - c. Suspends coinsurance for an additional premium charge of 5%.
  - d. Agreed Value is triggered by an endorsement with an additional premium charge of 10%.

2. Indicate whether the following are true or false regarding Inflation Guard:

	True	False
a. Inflation Guard automatically applies.		
b. A percentage must be shown in the Declarations for this Optional Coverage to apply		
c. The Limit of Insurance changes quarterly.		
d. The increase to the Limit of Insurance changes daily.		

3. The named insured has coverage under their CPP for Building, Your Business Personal Property, and Personal Property of Others at a location described in the Declarations. Which of the following is an accurate statement?
  - a. There is an optional coverage for extending Replacement Cost to the Personal Property of Others.
  - b. If the insured has Replacement Cost on Your Business Personal Property, the CPP will automatically extend Replacement Cost Coverage to the Personal Property of Others.

## CP Exhibit – Building And Personal Property Coverage Form Summary of Coverage

There are three categories of Covered Property:

1. Building
2. Your Business Personal Property
3. Personal Property Of Others

There are 17 categories of Property Not Covered

There are six Additional Coverages:

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

There are seven Coverage Extensions:

1. Newly Acquired Or Constructed Property
2. Personal Effects And Property Of Others
3. Valuable Papers And Records (Other Than Electronic Data)
4. Property Off-premises
5. Outdoor Property
6. Non-owned Detached Trailers
7. Business Personal Property Temporarily In Portable Storage Units

There are seven Loss Conditions.

1. Abandonment
2. Appraisal
3. Duties In The Event Of Loss Or Damage
4. Loss Payment
5. Recovered Property
6. Vacancy
7. Valuation

There are four Optional Coverages:

1. Agreed Value
2. Inflation Guard
3. Replacement Cost
4. Extension Of Replacement Cost To Personal Property Of Others

**This exhibit should be used solely as a guide. Please read the policy.**

## Legal Liability Coverage Form CP 00 40 10 12

Even though the BPPCF provides coverage for insurable interest, this Coverage Form is designed for named insureds that may have an obligation to pay sums due to negligent damage from a covered cause of loss to property of others that is in the insured's care, custody, or control.

**Example:**

*May be needed by tenants for perils in addition to fire (e.g., vehicle damage, water damage, etc.)*

**This property form is an alternative to "fire legal liability" coverage on the CGL Policy**

**A. Coverage**

We will pay those sums that you become legally obligated to pay as damages because of direct physical loss or damage, including loss of use, to Covered Property caused by accident and arising out of any Covered Cause of Loss. We will have the right and duty to defend any "suit" seeking those damages. However, we have no duty to defend you against a "suit" seeking damages for direct physical loss or damage to which this insurance does not apply. We may investigate and settle any claim or "suit" at our discretion. But:

- (1) The amount we will pay for damages is limited as described in Section C. Limits Of Insurance; and
- (2) Our right and duty to defend end when we have used up the Limit of Insurance in the payment of judgments or settlements.

**1. Covered Property And Limitations**

Covered Property, as used in this Coverage Form, means tangible property of others in your care, custody or control that is described in the Declarations or on the Legal Liability Coverage Schedule.

Covered Property does not include electronic data. 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. This paragraph does not apply to electronic data which is integrated in and operates or controls the building's elevator, lighting, heating, ventilation, air conditioning or security system.

- Insured must have a legal obligation to pay damages
- Coverage applies to tangible property of others in the named insured's CCC
- Subject to applicable Causes of Loss form shown in the Declarations
- Has Characteristics Of Property And Liability Coverage Forms...

**Example:**

*Insured selects either the Basic, Broad, or Special Causes Of Loss form to attach to the Legal Liability Coverage Form*

*Similarities to the Commercial General Liability (CGL) Coverage Form*

*The Legal Liability Coverage Form has similar legal liability obligation wording: "We will pay those sums you become legally obligated to pay as damages..."*

**Note:**

Further discussion is beyond the scope of this course

## Review of Learning Objectives

1. Using knowledge of the Common Policy Conditions, Commercial Property Declarations, and Commercial Property Conditions, the participant will be able explain to a client the rights and duties of the first Named Insured, how coinsurance applies, and who has the rights of recovery in the event of a loss.
2. Using knowledge of the Building and Personal Property Coverage Form, the participant will be able to distinguish between what is Covered Property and Property Not Covered, and endorsements, if any, that may be used to modify the insurance coverage.
3. Using knowledge of Covered Property in Building and Personal Property Coverage Form including:
  - Specific Coverage,
  - Scheduled Coverage,
  - Blanket Coverage
  - Key endorsements
 the participant will be able to distinguish the advantages and disadvantages of writing a policy on a blanket basis and describe the endorsements that are available to handle fluctuating values.
4. Using knowledge of the six Additional Coverages in the Building and Personal Property Coverage Form the participants will be able to explain how coverage applies in the event of a loss, and the endorsements available to modify coverage.
5. Using knowledge of the seven Coverage Extensions in the Building and Personal Property Coverage Form the participants will be able to explain how coverage applies in the event of a loss, and the endorsements available to modify coverage.
6. Using knowledge of the Building and Personal Property Coverage Form including:
  - Limits of Insurance
  - Deductibles
 the participant will be able to explain how the policy will respond in the event of loss or damage and describe the endorsements that can be used to modify these policy provisions.
7. Using knowledge of the Loss Conditions in the Building and Personal Property Coverage Form the participant will be able to explain how the policy will respond in the event of loss or damage and explain the endorsements that can be used to modify these policy conditions.
8. Using knowledge of the Building and Personal Property Coverage Form, describe the purpose of the four Optional Coverages and how these coverages apply when activated on the Declarations Page.



## Knowledge Check 1 – ANSWERS

1. The Common Policy Conditions stipulates certain conditions. Select the correct answer.
  - a. **The first named insured has certain rights and duties.**
  
2. If the named insured has a building valued at a \$1,000,000 and has 80% indicated on the Declarations for coinsurance, which of the following is the amount that is required to avoid a coinsurance penalty?
  - a. **At least \$800,000**
  
3. What is the formula that applies when an insufficient Limit Of Insurance is carried?
  - a. **Amount carried/amount required X Loss = Recovery minus deductible equals settlement**
  
4. When can a named insured waive his rights of recovery against another party?
  - d. **It must be in writing prior to a loss; after a loss in writing but only for certain responsible parties.**





## Knowledge Check 2 – ANSWERS

1. Which are the categories of Covered Property under an unendorsed CPP?

a. **Building, Your Business Personal Property, Personal Property of Others**

2. The named insured has a CPP covering their owned building and their business personal property. Indicate which of the following items are covered under Building or as Your Business Personal Property.

	Building	Your Business Personal Property
a. Fixtures, including outdoor fixtures	X	
b. Furniture and fixtures		X
c. Permanently installed machinery or equipment	X	
d. Fire extinguishing to service the building	X	

3. Indicate which of the following are Covered Property and Property Not Covered under the BPPCF?

	Covered Property	Property Not Covered
a. Retaining walls that are a part of a building	X	
b. Paved surfaces such as a parking lot		X
c. Underground pipes, flues or drains		X
d. Building foundations, including those below the lowest basement floor		X



## Knowledge Check 3 – ANSWERS

1. A named insured has a CPP written on a value reporting form with a monthly reporting period on the Business Personal Property (BPP). The insured has a limit of \$500,000 on BPP. Indicate which of the following is an accurate statement:
  - a. **After four months, the insured who has never submitted a report has a \$10,000 covered loss to BPP. The insured will only be able to collect 75% of the covered loss.**
  
2. The insured has been reporting on time but underreporting their values on all their reports. In the June report, they should have reported \$400,000, but they actually reported \$200,000. A claim occurred in early August with a loss of \$100,000. Indicate which of the following is an accurate statement:
  - a. **At the time of loss, they will only be able to receive 50% of the loss.**



## Knowledge Check 4 – ANSWERS

1. The named insured is the landlord of a building and has a CPP with a limit of \$750,000 on the building. A fire occurs causing significant damage to the building and creating a large amount of debris that must be removed. Which of the following is an accurate statement?
  - b. Debris removal is an Additional Coverage and the CPP pays for 25% of a direct damage loss, plus up to an additional \$25,000 after the policy limits are exhausted.**
  
2. The named insured has a CPP covering both the building and business personal property. The building has been damaged by a covered cause of loss. The insured moves some of the contents to prevent damage. Which of the following is an accurate?
  - b. Preservation of Property is included as an Additional Coverage and provides coverage for 30 days after covered property is first moved.**
  
3. The named insured has a CPP with 80% coinsurance on a \$750,000 building. They purchase a warehouse valued at \$300,000. Do they have any coverage for this newly acquired property under the BPPCF?
  - a. The BPPCF provides coverage for newly acquired property as a Coverage Extension up to \$250,000 but only for 30 days or policy expires, whichever occurs first.**
  
4. Indicate whether the following items are an Additional Coverage or a Coverage Extension:

	Additional Coverage	Coverage Extension
a. Increased Cost of Construction	<b>X</b>	
b. Outdoor Property		<b>X</b>
c. Fire Department Service Charge	<b>X</b>	
d. Personal Effects and Property of Others		<b>X</b>



## Knowledge Check 5 – ANSWERS

1. The named insured has a CPP with a building limit of \$1,000,000. The building has been vacant for 3 months. Which of the following is an accurate statement under the BPPCF?
  - d. **There is no coverage after a building has been vacant for more than 60 consecutive days for certain Covered Causes of Loss and the payment on others is reduced by 15%.**
  
2. The valuation loss condition under the BPPCF automatically provides coverage on an actual cash value basis except as otherwise provided. True or False?
  - a. **True**
  
3. The named insured owns an older building they want insured. If the building suffers a significant loss, they want to rebuild but with less costly material. Which of the following endorsement would modify coverage?
  - b. **Functional Building Valuation Endorsement**



## Knowledge Check 6 – ANSWERS

1. The named insured has a CPP with both building and business personal property insured. Which of the following statement is true regarding Agreed Value?

**c. Suspends coinsurance for an additional premium charge of 5%.**

2. Indicate whether the following are true or false regarding Inflation Guard:

	True	False
a. Inflation Guard automatically applies.		<b>X</b>
b. A percentage must be shown in the Declarations for this Optional Coverage to apply	<b>X</b>	
c. The Limit of Insurance changes quarterly.		<b>X</b>
d. The increase to the Limit of Insurance changes daily.	<b>X</b>	

3. The named insured has coverage under their CPP for Building, Your Business Personal Property, and Personal Property of Others at a location described in the Declarations. Which of the following is an accurate statement?

**a. There is an optional coverage for extending Replacement Cost to the Personal Property of Others.**

## FORMS

Form Number	Form Name
CP 00 10 10 12	Building and Personal Property Coverage Form
CP 00 40 10 12	Legal Liability Coverage Form

# 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.

However, our payment for loss of or damage to personal property of others will only be for the account of the owner of the property.

## **2. Property Not Covered**

Covered Property does not include:

- a. Accounts, bills, currency, food stamps or other evidences of debt, money, notes or securities. Lottery tickets held for sale are not securities;
- b. Animals, unless owned by others and boarded by you, or if owned by you, only as "stock" while inside of buildings;
- c. Automobiles held for sale;
- d. Bridges, roadways, walks, patios or other paved surfaces;
- e. Contraband, or property in the course of illegal transportation or trade;
- f. The cost of excavations, grading, backfilling or filling;
- g. Foundations of buildings, structures, machinery or boilers if their foundations are below:
  - (1) The lowest basement floor; or
  - (2) The surface of the ground, if there is no basement;
- h. Land (including land on which the property is located), water, growing crops or lawns (other than lawns which are part of a vegetated roof);
- i. Personal property while airborne or waterborne;
- j. Bulkheads, pilings, piers, wharves or docks;
- k. Property that is covered under another coverage form of this or any other policy in which it is more specifically described, except for the excess of the amount due (whether you can collect on it or not) from that other insurance;
- l. Retaining walls that are not part of a building;
- m. Underground pipes, flues or drains;
- n. Electronic data, except as provided under the Additional Coverage, Electronic Data. 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. This paragraph, n., does not apply to your "stock" of prepackaged software, or to electronic data which is integrated in and operates or controls the building's elevator, lighting, heating, ventilation, air conditioning or security system;
- o. The cost to replace or restore the information on valuable papers and records, including those which exist as electronic data. Valuable papers and records include but are not limited to proprietary information, books of account, deeds, manuscripts, abstracts, drawings and card index systems. Refer to the Coverage Extension for Valuable Papers And Records (Other Than Electronic Data) for limited coverage for valuable papers and records other than those which exist as electronic data;
- p. Vehicles or self-propelled machines (including aircraft or watercraft) that:
  - (1) Are licensed for use on public roads; or
  - (2) Are operated principally away from the described premises.

This paragraph does not apply to:

- (a) Vehicles or self-propelled machines or autos you manufacture, process or warehouse;



- (b) Vehicles or self-propelled machines, other than autos, you hold for sale;
- (c) Rowboats or canoes out of water at the described premises; or
- (d) Trailers, but only to the extent provided for in the Coverage Extension for Non-owned Detached Trailers; or

q. The following property while outside of buildings:

- (1) Grain, hay, straw or other crops;
- (2) Fences, radio or television antennas (including satellite dishes) and their lead-in wiring, masts or towers, trees, shrubs or plants (other than trees, shrubs or plants which are "stock" or are part of a vegetated roof), all except as provided in the Coverage Extensions.

### 3. Covered Causes Of Loss

See applicable Causes Of Loss form as shown in the Declarations.

### 4. Additional Coverages

#### a. Debris Removal

- (1) Subject to Paragraphs (2), (3) and (4), we will pay your expense to remove debris of Covered Property and other debris that is on the described premises, when such debris is caused by or results from a Covered Cause of Loss that occurs during the policy period. The expenses will be paid only if they are reported to us in writing within 180 days of the date of direct physical loss or damage.
- (2) Debris Removal does not apply to costs to:
  - (a) Remove debris of property of yours that is not insured under this policy, or property in your possession that is not Covered Property;
  - (b) Remove debris of property owned by or leased to the landlord of the building where your described premises are located, unless you have a contractual responsibility to insure such property and it is insured under this policy;
  - (c) Remove any property that is Property Not Covered, including property addressed under the Outdoor Property Coverage Extension;

- (d) Remove property of others of a type that would not be Covered Property under this Coverage Form;
  - (e) Remove deposits of mud or earth from the grounds of the described premises;
  - (f) Extract "pollutants" from land or water; or
  - (g) Remove, restore or replace polluted land or water.
- (3) Subject to the exceptions in Paragraph (4), the following provisions apply:
- (a) The most we will pay for the total of direct physical loss or damage plus debris removal expense is the Limit of Insurance applicable to the Covered Property that has sustained loss or damage.
  - (b) Subject to (a) above, the amount we will pay for debris removal expense is limited to 25% of the sum of the deductible plus the amount that we pay for direct physical loss or damage to the Covered Property that has sustained loss or damage. However, if no Covered Property has sustained direct physical loss or damage, the most we will pay for removal of debris of other property (if such removal is covered under this Additional Coverage) is \$5,000 at each location.
- (4) We will pay up to an additional \$25,000 for debris removal expense, for each location, in any one occurrence of physical loss or damage to Covered Property, if one or both of the following circumstances apply:
- (a) The total of the actual debris removal expense plus the amount we pay for direct physical loss or damage exceeds the Limit of Insurance on the Covered Property that has sustained loss or damage.
  - (b) The actual debris removal expense exceeds 25% of the sum of the deductible plus the amount that we pay for direct physical loss or damage to the Covered Property that has sustained loss or damage.

Therefore, if **(4)(a)** and/or **(4)(b)** applies, our total payment for direct physical loss or damage and debris removal expense may reach but will never exceed the Limit of Insurance on the Covered Property that has sustained loss or damage, plus \$25,000.

## **(5) Examples**

The following examples assume that there is no Coinsurance penalty.

### **Example 1**

Limit of Insurance:	\$ 90,000
Amount of Deductible:	\$ 500
Amount of Loss:	\$ 50,000
Amount of Loss Payable:	\$ 49,500
	(\$50,000 – \$500)
Debris Removal Expense:	\$ 10,000
Debris Removal Expense Payable:	\$ 10,000
	(\$10,000 is 20% of \$50,000.)

The debris removal expense is less than 25% of the sum of the loss payable plus the deductible. The sum of the loss payable and the debris removal expense (\$49,500 + \$10,000 = \$59,500) is less than the Limit of Insurance. Therefore, the full amount of debris removal expense is payable in accordance with the terms of Paragraph **(3)**.

### **Example 2**

Limit of Insurance:	\$ 90,000
Amount of Deductible:	\$ 500
Amount of Loss:	\$ 80,000
Amount of Loss Payable:	\$ 79,500
	(\$80,000 – \$500)
Debris Removal Expense:	\$ 40,000
Debris Removal Expense Payable	
Basic Amount:	\$ 10,500
Additional Amount:	\$ 25,000

The basic amount payable for debris removal expense under the terms of Paragraph **(3)** is calculated as follows: \$80,000 (\$79,500 + \$500) x .25 = \$20,000, capped at \$10,500. The cap applies because the sum of the loss payable (\$79,500) and the basic amount payable for debris removal expense (\$10,500) cannot exceed the Limit of Insurance (\$90,000).

The additional amount payable for debris removal expense is provided in accordance with the terms of Paragraph **(4)**, because the debris removal expense (\$40,000) exceeds 25% of the loss payable plus the deductible (\$40,000 is 50% of \$80,000), and because the sum of the loss payable and debris removal expense (\$79,500 + \$40,000 = \$119,500) would exceed the Limit of Insurance (\$90,000). The additional amount of covered debris removal expense is \$25,000, the maximum payable under Paragraph **(4)**. Thus, the total payable for debris removal expense in this example is \$35,500; \$4,500 of the debris removal expense is not covered.

### **b. Preservation Of Property**

If it is necessary to move Covered Property from the described premises to preserve it from loss or damage by a Covered Cause of Loss, we will pay for any direct physical loss or damage to that property:

- (1)** While it is being moved or while temporarily stored at another location; and
- (2)** Only if the loss or damage occurs within 30 days after the property is first moved.

### **c. Fire Department Service Charge**

When the fire department is called to save or protect Covered Property from a Covered Cause of Loss, we will pay up to \$1,000 for service at each premises described in the Declarations, unless a higher limit is shown in the Declarations. Such limit is the most we will pay regardless of the number of responding fire departments or fire units, and regardless of the number or type of services performed.

This Additional Coverage applies to your liability for fire department service charges:

- (1)** Assumed by contract or agreement prior to loss; or
- (2)** Required by local ordinance.

No Deductible applies to this Additional Coverage.

#### d. Pollutant Clean-up And Removal

We will pay your expense to extract "pollutants" from land or water at the described premises if the discharge, dispersal, seepage, migration, release or escape of the "pollutants" is caused by or results from a Covered Cause of Loss that occurs during the policy period. The expenses will be paid only if they are reported to us in writing within 180 days of the date on which the Covered Cause of Loss occurs.

This Additional Coverage does not apply to costs to test for, monitor or assess the existence, concentration or effects of "pollutants". But we will pay for testing which is performed in the course of extracting the "pollutants" from the land or water.

The most we will pay under this Additional Coverage for each described premises is \$10,000 for the sum of all covered expenses arising out of Covered Causes of Loss occurring during each separate 12-month period of this policy.

#### e. Increased Cost Of Construction

- (1) This Additional Coverage applies only to buildings to which the Replacement Cost Optional Coverage applies.
- (2) In the event of damage by a Covered Cause of Loss to a building that is Covered Property, we will pay the increased costs incurred to comply with the minimum standards of an ordinance or law in the course of repair, rebuilding or replacement of damaged parts of that property, subject to the limitations stated in e.(3) through e.(9) of this Additional Coverage.
- (3) The ordinance or law referred to in e.(2) of this Additional Coverage is an ordinance or law that regulates the construction or repair of buildings or establishes zoning or land use requirements at the described premises and is in force at the time of loss.
- (4) Under this Additional Coverage, we will not pay any costs due to an ordinance or law that:
  - (a) You were required to comply with before the loss, even when the building was undamaged; and
  - (b) You failed to comply with.

(5) Under this Additional Coverage, we will not pay for:

- (a) The enforcement of or compliance with any ordinance or law which requires demolition, repair, replacement, reconstruction, remodeling or remediation of property due to contamination by "pollutants" or due to the presence, growth, proliferation, spread or any activity of "fungus", wet or dry rot or bacteria; or
  - (b) Any costs associated with the enforcement of or compliance with an ordinance or law which requires any insured or others to test for, monitor, clean up, remove, contain, treat, detoxify or neutralize, or in any way respond to, or assess the effects of "pollutants", "fungus", wet or dry rot or bacteria.
- (6) The most we will pay under this Additional Coverage, for each described building insured under this Coverage Form, is \$10,000 or 5% of the Limit of Insurance applicable to that building, whichever is less. If a damaged building is covered under a blanket Limit of Insurance which applies to more than one building or item of property, then the most we will pay under this Additional Coverage, for that damaged building, is the lesser of \$10,000 or 5% times the value of the damaged building as of the time of loss times the applicable Coinsurance percentage.
- The amount payable under this Additional Coverage is additional insurance.
- (7) With respect to this Additional Coverage:
- (a) We will not pay for the Increased Cost of Construction:
    - (i) Until the property is actually repaired or replaced at the same or another premises; and
    - (ii) Unless the repair or replacement is made as soon as reasonably possible after the loss or damage, not to exceed two years. We may extend this period in writing during the two years.

- (b) If the building is repaired or replaced at the same premises, or if you elect to rebuild at another premises, the most we will pay for the Increased Cost of Construction, subject to the provisions of **e.(6)** of this Additional Coverage, is the increased cost of construction at the same premises.
  - (c) If the ordinance or law requires relocation to another premises, the most we will pay for the Increased Cost of Construction, subject to the provisions of **e.(6)** of this Additional Coverage, is the increased cost of construction at the new premises.
  - (8) This Additional Coverage is not subject to the terms of the Ordinance Or Law Exclusion to the extent that such Exclusion would conflict with the provisions of this Additional Coverage.
  - (9) The costs addressed in the Loss Payment and Valuation Conditions and the Replacement Cost Optional Coverage, in this Coverage Form, do not include the increased cost attributable to enforcement of or compliance with an ordinance or law. The amount payable under this Additional Coverage, as stated in **e.(6)** of this Additional Coverage, is not subject to such limitation.
- f. Electronic Data**
- (1) Under this Additional Coverage, electronic data has the meaning described under Property Not Covered, Electronic Data. This Additional Coverage does not apply to your "stock" of prepackaged software, or to electronic data which is integrated in and operates or controls the building's elevator, lighting, heating, ventilation, air conditioning or security system.
  - (2) Subject to the provisions of this Additional Coverage, we will pay for the cost to replace or restore electronic data which has been destroyed or corrupted by a Covered Cause of Loss. To the extent that electronic data is not replaced or restored, the loss will be valued at the cost of replacement of the media on which the electronic data was stored, with blank media of substantially identical type.
- (3) The Covered Causes of Loss applicable to Your Business Personal Property apply to this Additional Coverage, Electronic Data, subject to the following:
    - (a) If the Causes Of Loss – Special Form applies, coverage under this Additional Coverage, Electronic Data, is limited to the "specified causes of loss" as defined in that form and Collapse as set forth in that form.
    - (b) If the Causes Of Loss – Broad Form applies, coverage under this Additional Coverage, Electronic Data, includes Collapse as set forth in that form.
    - (c) If the Causes Of Loss form is endorsed to add a Covered Cause of Loss, the additional Covered Cause of Loss does not apply to the coverage provided under this Additional Coverage, Electronic Data.
    - (d) The Covered Causes of Loss include a virus, harmful code or similar instruction introduced into or enacted on a computer system (including electronic data) or a network to which it is connected, designed to damage or destroy any part of the system or disrupt its normal operation. But there is no coverage for loss or damage caused by or resulting from manipulation of a computer system (including electronic data) by any employee, including a temporary or leased employee, or by an entity retained by you or for you to inspect, design, install, modify, maintain, repair or replace that system.

- (4) The most we will pay under this Additional Coverage, Electronic Data, is \$2,500 (unless a higher limit is shown in the Declarations) for all loss or damage sustained in any one policy year, regardless of the number of occurrences of loss or damage or the number of premises, locations or computer systems involved. If loss payment on the first occurrence does not exhaust this amount, then the balance is available for subsequent loss or damage sustained in but not after that policy year. With respect to an occurrence which begins in one policy year and continues or results in additional loss or damage in a subsequent policy year(s), all loss or damage is deemed to be sustained in the policy year in which the occurrence began.

## 5. Coverage Extensions

Except as otherwise provided, the following Extensions apply to property located in or on the building described in the Declarations or in the open (or in a vehicle) within 100 feet of the described premises.

If a Coinsurance percentage of 80% or more, or a Value Reporting period symbol, is shown in the Declarations, you may extend the insurance provided by this Coverage Part as follows:

### a. Newly Acquired Or Constructed Property

#### (1) Buildings

If this policy covers Building, you may extend that insurance to apply to:

- (a) Your new buildings while being built on the described premises; and
- (b) Buildings you acquire at locations, other than the described premises, intended for:
  - (i) Similar use as the building described in the Declarations; or
  - (ii) Use as a warehouse.

The most we will pay for loss or damage under this Extension is \$250,000 at each building.

## (2) Your Business Personal Property

- (a) If this policy covers Your Business Personal Property, you may extend that insurance to apply to:

- (i) Business personal property, including such property that you newly acquire, at any location you acquire other than at fairs, trade shows or exhibitions; or
- (ii) Business personal property, including such property that you newly acquire, located at your newly constructed or acquired buildings at the location described in the Declarations.

The most we will pay for loss or damage under this Extension is \$100,000 at each building.

- (b) This Extension does not apply to:

- (i) Personal property of others that is temporarily in your possession in the course of installing or performing work on such property; or
- (ii) Personal property of others that is temporarily in your possession in the course of your manufacturing or wholesaling activities.

## (3) Period Of Coverage

With respect to insurance provided under this Coverage Extension for Newly Acquired Or Constructed Property, coverage will end when any of the following first occurs:

- (a) This policy expires;
- (b) 30 days expire after you acquire the property or begin construction of that part of the building that would qualify as covered property; or
- (c) You report values to us.

We will charge you additional premium for values reported from the date you acquire the property or begin construction of that part of the building that would qualify as covered property.

#### **b. Personal Effects And Property Of Others**

You may extend the insurance that applies to Your Business Personal Property to apply to:

- (1) Personal effects owned by you, your officers, your partners or members, your managers or your employees. This Extension does not apply to loss or damage by theft.
- (2) Personal property of others in your care, custody or control.

The most we will pay for loss or damage under this Extension is \$2,500 at each described premises. Our payment for loss of or damage to personal property of others will only be for the account of the owner of the property.

#### **c. Valuable Papers And Records (Other Than Electronic Data)**

- (1) You may extend the insurance that applies to Your Business Personal Property to apply to the cost to replace or restore the lost information on valuable papers and records for which duplicates do not exist. But this Extension does not apply to valuable papers and records which exist as electronic data. Electronic data has the meaning described under Property Not Covered, Electronic Data.
- (2) If the Causes Of Loss – Special Form applies, coverage under this Extension is limited to the "specified causes of loss" as defined in that form and Collapse as set forth in that form.
- (3) If the Causes Of Loss – Broad Form applies, coverage under this Extension includes Collapse as set forth in that form.
- (4) Under this Extension, the most we will pay to replace or restore the lost information is \$2,500 at each described premises, unless a higher limit is shown in the Declarations. Such amount is additional insurance. We will also pay for the cost of blank material for reproducing the records (whether or not duplicates exist) and (when there is a duplicate) for the cost of labor to transcribe or copy the records. The costs of blank material and labor are subject to the applicable Limit of Insurance on Your Business Personal Property and, therefore, coverage of such costs is not additional insurance.

#### **d. Property Off-premises**

- (1) You may extend the insurance provided by this Coverage Form to apply to your Covered Property while it is away from the described premises, if it is:
  - (a) Temporarily at a location you do not own, lease or operate;
  - (b) In storage at a location you lease, provided the lease was executed after the beginning of the current policy term; or
  - (c) At any fair, trade show or exhibition.
- (2) This Extension does not apply to property:
  - (a) In or on a vehicle; or
  - (b) In the care, custody or control of your salespersons, unless the property is in such care, custody or control at a fair, trade show or exhibition.
- (3) The most we will pay for loss or damage under this Extension is \$10,000.

#### **e. Outdoor Property**

You may extend the insurance provided by this Coverage Form to apply to your outdoor fences, radio and television antennas (including satellite dishes), trees, shrubs and plants (other than trees, shrubs or plants which are "stock" or are part of a vegetated roof), including debris removal expense, caused by or resulting from any of the following causes of loss if they are Covered Causes of Loss:

- (1) Fire;
- (2) Lightning;
- (3) Explosion;
- (4) Riot or Civil Commotion; or
- (5) Aircraft.

The most we will pay for loss or damage under this Extension is \$1,000, but not more than \$250 for any one tree, shrub or plant. These limits apply to any one occurrence, regardless of the types or number of items lost or damaged in that occurrence.

Subject to all aforementioned terms and limitations of coverage, this Coverage Extension includes the expense of removing from the described premises the debris of trees, shrubs and plants which are the property of others, except in the situation in which you are a tenant and such property is owned by the landlord of the described premises.

**f. Non-owned Detached Trailers**

- (1) You may extend the insurance that applies to Your Business Personal Property to apply to loss or damage to trailers that you do not own, provided that:
  - (a) The trailer is used in your business;
  - (b) The trailer is in your care, custody or control at the premises described in the Declarations; and
  - (c) You have a contractual responsibility to pay for loss or damage to the trailer.
- (2) We will not pay for any loss or damage that occurs:
  - (a) While the trailer is attached to any motor vehicle or motorized conveyance, whether or not the motor vehicle or motorized conveyance is in motion;
  - (b) During hitching or unhitching operations, or when a trailer becomes accidentally unhitched from a motor vehicle or motorized conveyance.
- (3) The most we will pay for loss or damage under this Extension is \$5,000, unless a higher limit is shown in the Declarations.
- (4) This insurance is excess over the amount due (whether you can collect on it or not) from any other insurance covering such property.

**g. Business Personal Property Temporarily In Portable Storage Units**

- (1) You may extend the insurance that applies to Your Business Personal Property to apply to such property while temporarily stored in a portable storage unit (including a detached trailer) located within 100 feet of the building or structure described in the Declarations or within 100 feet of the premises described in the Declarations, whichever distance is greater.

- (2) If the applicable Covered Causes of Loss form or endorsement contains a limitation or exclusion concerning loss or damage from sand, dust, sleet, snow, ice or rain to property in a structure, such limitation or exclusion also applies to property in a portable storage unit.
- (3) Coverage under this Extension:
  - (a) Will end 90 days after the business personal property has been placed in the storage unit;
  - (b) Does not apply if the storage unit itself has been in use at the described premises for more than 90 consecutive days, even if the business personal property has been stored there for 90 or fewer days as of the time of loss or damage.
- (4) Under this Extension, the most we will pay for the total of all loss or damage to business personal property is \$10,000 (unless a higher limit is indicated in the Declarations for such Extension) regardless of the number of storage units. Such limit is part of, not in addition to, the applicable Limit of Insurance on Your Business Personal Property. Therefore, payment under this Extension will not increase the applicable Limit of Insurance on Your Business Personal Property.
- (5) This Extension does not apply to loss or damage otherwise covered under this Coverage Form or any endorsement to this Coverage Form or policy, and does not apply to loss or damage to the storage unit itself.

Each of these Extensions is additional insurance unless otherwise indicated. The Additional Condition, Coinsurance, does not apply to these Extensions.

**B. Exclusions And Limitations**

See applicable Causes Of Loss form as shown in the Declarations.

**C. Limits Of Insurance**

The most we will pay for loss or damage in any one occurrence is the applicable Limit Of Insurance shown in the Declarations.

The most we will pay for loss or damage to outdoor signs, whether or not the sign is attached to a building, is \$2,500 per sign in any one occurrence.

The amounts of insurance stated in the following Additional Coverages apply in accordance with the terms of such coverages and are separate from the Limit(s) Of Insurance shown in the Declarations for any other coverage:

1. Fire Department Service Charge;
2. Pollutant Clean-up And Removal;
3. Increased Cost Of Construction; and
4. Electronic Data.

Payments under the Preservation Of Property Additional Coverage will not increase the applicable Limit of Insurance.

#### D. Deductible

In any one occurrence of loss or damage (hereinafter referred to as loss), we will first reduce the amount of loss if required by the Coinsurance Condition or the Agreed Value Optional Coverage. If the adjusted amount of loss is less than or equal to the Deductible, we will not pay for that loss. If the adjusted amount of loss exceeds the Deductible, we will then subtract the Deductible from the adjusted amount of loss and will pay the resulting amount or the Limit of Insurance, whichever is less.

When the occurrence involves loss to more than one item of Covered Property and separate Limits of Insurance apply, the losses will not be combined in determining application of the Deductible. But the Deductible will be applied only once per occurrence.

#### Example 1

(This example assumes there is no Coinsurance penalty.)

Deductible:	\$ 250
Limit of Insurance – Building 1:	\$ 60,000
Limit of Insurance – Building 2:	\$ 80,000
Loss to Building 1:	\$ 60,100
Loss to Building 2:	\$ 90,000

The amount of loss to Building 1 (\$60,100) is less than the sum (\$60,250) of the Limit of Insurance applicable to Building 1 plus the Deductible.

The Deductible will be subtracted from the amount of loss in calculating the loss payable for Building 1:

$$\begin{array}{r} \$ 60,100 \\ - \quad 250 \\ \hline \end{array}$$

\$ 59,850 Loss Payable – Building 1

The Deductible applies once per occurrence and therefore is not subtracted in determining the amount of loss payable for Building 2. Loss payable for Building 2 is the Limit of Insurance of \$80,000.

Total amount of loss payable:

$$\$59,850 + \$80,000 = \$139,850$$

#### Example 2

(This example, too, assumes there is no Coinsurance penalty.)

The Deductible and Limits of Insurance are the same as those in Example 1.

Loss to Building 1:	\$ 70,000
(Exceeds Limit of Insurance plus Deductible)	
Loss to Building 2:	\$ 90,000
(Exceeds Limit of Insurance plus Deductible)	
Loss Payable – Building 1:	\$ 60,000
(Limit of Insurance)	
Loss Payable – Building 2:	\$ 80,000
(Limit of Insurance)	
Total amount of loss payable:	\$ 140,000

#### E. Loss Conditions

The following conditions apply in addition to the Common Policy Conditions and the Commercial Property Conditions:

##### 1. Abandonment

There can be no abandonment of any property to us.

##### 2. 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:

- a. Pay its chosen appraiser; and
- b. 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.

##### 3. Duties In The Event Of Loss Or Damage

- a. 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) At our request, give us complete inventories of the damaged and undamaged property. Include quantities, costs, values and amount of loss claimed.
  - (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) Send us a signed, sworn proof of loss containing the information we request to investigate the claim. You must do this within 60 days after our request. We will supply you with the necessary forms.
  - (8) Cooperate with us in the investigation or settlement of the claim.
- b. 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.

#### 4. Loss Payment

- a. In the event of loss or damage covered by this Coverage Form, at our option, we will either:
  - (1) Pay the value of lost or damaged property;
  - (2) Pay the cost of repairing or replacing the lost or damaged property, subject to b. below;
  - (3) Take all or any part of the property at an agreed or appraised value; or
  - (4) Repair, rebuild or replace the property with other property of like kind and quality, subject to b. below.

We will determine the value of lost or damaged property, or the cost of its repair or replacement, in accordance with the applicable terms of the Valuation Condition in this Coverage Form or any applicable provision which amends or supersedes the Valuation Condition.
- b. The cost to repair, rebuild or replace does not include the increased cost attributable to enforcement of or compliance with any ordinance or law regulating the construction, use or repair of any property.
- c. We will give notice of our intentions within 30 days after we receive the sworn proof of loss.
- d. We will not pay you more than your financial interest in the Covered Property.
- e. 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 claims against us for the owners' property. We will not pay the owners more than their financial interest in the Covered Property.
- f. We may elect to defend you against suits arising from claims of owners of property. We will do this at our expense.
- g. 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 of the terms of this Coverage Part, and:
  - (1) We have reached agreement with you on the amount of loss; or
  - (2) An appraisal award has been made.

- h.** A party wall is a wall that separates and is common to adjoining buildings that are owned by different parties. In settling covered losses involving a party wall, we will pay a proportion of the loss to the party wall based on your interest in the wall in proportion to the interest of the owner of the adjoining building. However, if you elect to repair or replace your building and the owner of the adjoining building elects not to repair or replace that building, we will pay you the full value of the loss to the party wall, subject to all applicable policy provisions including Limits of Insurance, the Valuation and Coinsurance Conditions and all other provisions of this Loss Payment Condition. Our payment under the provisions of this paragraph does not alter any right of subrogation we may have against any entity, including the owner or insurer of the adjoining building, and does not alter the terms of the Transfer Of Rights Of Recovery Against Others To Us Condition in this policy.

## **5. 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.

## **6. Vacancy**

### **a. Description Of Terms**

- (1)** As used in this Vacancy Condition, the term building and the term vacant have the meanings set forth in **(1)(a)** and **(1)(b)** below:
- (a)** When this policy is issued to a tenant, and with respect to that tenant's interest in Covered Property, building means the unit or suite rented or leased to the tenant. Such building is vacant when it does not contain enough business personal property to conduct customary operations.

- (b)** When this policy is issued to the owner or general lessee of a building, building means the entire building. Such building is vacant unless at least 31% of its total square footage is:

- (i)** Rented to a lessee or sublessee and used by the lessee or sublessee to conduct its customary operations; and/or
- (ii)** Used by the building owner to conduct customary operations.

- (2)** Buildings under construction or renovation are not considered vacant.

### **b. Vacancy Provisions**

If the building where loss or damage occurs has been vacant for more than 60 consecutive days before that loss or damage occurs:

- (1)** We will not pay for any loss or damage caused by any of the following, even if they are Covered Causes of Loss:
- (a)** Vandalism;
- (b)** Sprinkler leakage, unless you have protected the system against freezing;
- (c)** Building glass breakage;
- (d)** Water damage;
- (e)** Theft; or
- (f)** Attempted theft.
- (2)** With respect to Covered Causes of Loss other than those listed in **b.(1)(a)** through **b.(1)(f)** above, we will reduce the amount we would otherwise pay for the loss or damage by 15%.

## **7. Valuation**

We will determine the value of Covered Property in the event of loss or damage as follows:

- a.** At actual cash value as of the time of loss or damage, except as provided in **b.**, **c.**, **d.** and **e.** below.
- b.** If the Limit of Insurance for Building satisfies the Additional Condition, Coinsurance, and the cost to repair or replace the damaged building property is \$2,500 or less, we will pay the cost of building repairs or replacement.

The cost of building repairs or replacement does not include the increased cost attributable to enforcement of or compliance with any ordinance or law regulating the construction, use or repair of any property.

However, the following property will be valued at the actual cash value, even when attached to the building:

- (1) Awnings or floor coverings;
  - (2) Appliances for refrigerating, ventilating, cooking, dishwashing or laundering; or
  - (3) Outdoor equipment or furniture.
- c. "Stock" you have sold but not delivered at the selling price less discounts and expenses you otherwise would have had.
- d. Glass at the cost of replacement with safety-glazing material if required by law.
- e. Tenants' Improvements and Betterments at:
- (1) Actual cash value of the lost or damaged property if you make repairs promptly.
  - (2) A proportion of your original cost if you do not make repairs promptly. We will determine the proportionate value as follows:
    - (a) Multiply the original cost by the number of days from the loss or damage to the expiration of the lease; and
    - (b) Divide the amount determined in (a) above by the number of days from the installation of improvements to the expiration of the lease.

If your lease contains a renewal option, the expiration of the renewal option period will replace the expiration of the lease in this procedure.

- (3) Nothing if others pay for repairs or replacement.

## F. Additional Conditions

The following conditions apply in addition to the Common Policy Conditions and the Commercial Property Conditions:

### 1. Coinsurance

If a Coinsurance percentage is shown in the Declarations, the following condition applies:

- a. We will not pay the full amount of any loss if the value of Covered Property at the time of loss times the Coinsurance percentage shown for it in the Declarations is greater than the Limit of Insurance for the property.

Instead, we will determine the most we will pay using the following steps:

- (1) Multiply the value of Covered Property at the time of loss by the Coinsurance percentage;
- (2) Divide the Limit of Insurance of the property by the figure determined in Step (1);
- (3) Multiply the total amount of loss, before the application of any deductible, by the figure determined in Step (2); and
- (4) Subtract the deductible from the figure determined in Step (3).

We will pay the amount determined in Step (4) or the Limit of Insurance, whichever is less. For the remainder, you will either have to rely on other insurance or absorb the loss yourself.

### Example 1 (Underinsurance)

When:	The value of the property is:	\$ 250,000
	The Coinsurance percentage for it is:	80%
	The Limit of Insurance for it is:	\$ 100,000
	The Deductible is:	\$ 250
	The amount of loss is:	\$ 40,000

Step (1):  $\$250,000 \times 80\% = \$200,000$   
(the minimum amount of insurance to meet your Coinsurance requirements)

Step (2):  $\$100,000 \div \$200,000 = .50$

Step (3):  $\$40,000 \times .50 = \$20,000$

Step (4):  $\$20,000 - \$250 = \$19,750$

We will pay no more than \$19,750. The remaining \$20,250 is not covered.

### Example 2 (Adequate Insurance)

When:	The value of the property is:	\$ 250,000
	The Coinsurance percentage for it is:	80%
	The Limit of Insurance for it is:	\$ 200,000
	The Deductible is:	\$ 250
	The amount of loss is:	\$ 40,000

The minimum amount of insurance to meet your Coinsurance requirement is \$200,000 ( $\$250,000 \times 80\%$ ). Therefore, the Limit of Insurance in this example is adequate, and no penalty applies. We will pay no more than \$39,750 ( $\$40,000$  amount of loss minus the deductible of \$250).

- b. If one Limit of Insurance applies to two or more separate items, this condition will apply to the total of all property to which the limit applies.

### Example 3

When: The value of the property is:

Building at Location 1:	\$ 75,000
Building at Location 2:	\$ 100,000
Personal Property at Location 2:	<u>\$ 75,000</u>
	\$ 250,000

The Coinsurance percentage for it is: 90%

The Limit of Insurance for Buildings and Personal Property at Locations 1 and 2 is: \$ 180,000

The Deductible is: \$ 1,000

The amount of loss is:

Building at Location 2: \$ 30,000

Personal Property at Location 2: \$ 20,000

\$ 50,000

Step (1):  $\$250,000 \times 90\% = \$225,000$

(the minimum amount of insurance to meet your Coinsurance requirements and to avoid the penalty shown below)

Step (2):  $\$180,000 \div \$225,000 = .80$

Step (3):  $\$50,000 \times .80 = \$40,000$

Step (4):  $\$40,000 - \$1,000 = \$39,000$

We will pay no more than \$39,000. The remaining \$11,000 is not covered.

## 2. Mortgageholders

- a. The term mortgageholder includes trustee.
- b. We will pay for covered loss of or damage to buildings or structures to each mortgageholder shown in the Declarations in their order of precedence, as interests may appear.
- c. The mortgageholder has the right to receive loss payment even if the mortgageholder has started foreclosure or similar action on the building or structure.
- d. If we deny your claim because of your acts or because you have failed to comply with the terms of this Coverage Part, the mortgageholder will still have the right to receive loss payment if the mortgageholder:
  - (1) Pays any premium due under this Coverage Part at our request if you have failed to do so;

- (2) Submits a signed, sworn proof of loss within 60 days after receiving notice from us of your failure to do so; and

- (3) Has notified us of any change in ownership, occupancy or substantial change in risk known to the mortgageholder.

All of the terms of this Coverage Part will then apply directly to the mortgageholder.

- e. If we pay the mortgageholder for any loss or damage and deny payment to you because of your acts or because you have failed to comply with the terms of this Coverage Part:

- (1) The mortgageholder's rights under the mortgage will be transferred to us to the extent of the amount we pay; and

- (2) The mortgageholder's right to recover the full amount of the mortgageholder's claim will not be impaired.

At our option, we may pay to the mortgageholder the whole principal on the mortgage plus any accrued interest. In this event, your mortgage and note will be transferred to us and you will pay your remaining mortgage debt to us.

- f. If we cancel this policy, we will give written notice to the mortgageholder at least:

- (1) 10 days before the effective date of cancellation if we cancel for your nonpayment of premium; or

- (2) 30 days before the effective date of cancellation if we cancel for any other reason.

- g. If we elect not to renew this policy, we will give written notice to the mortgageholder at least 10 days before the expiration date of this policy.

## G. Optional Coverages

If shown as applicable in the Declarations, the following Optional Coverages apply separately to each item:

### 1. Agreed Value

- a. The Additional Condition, Coinsurance, does not apply to Covered Property to which this Optional Coverage applies. We will pay no more for loss of or damage to that property than the proportion that the Limit of Insurance under this Coverage Part for the property bears to the Agreed Value shown for it in the Declarations.

- b. If the expiration date for this Optional Coverage shown in the Declarations is not extended, the Additional Condition, Coinsurance, is reinstated and this Optional Coverage expires.
- c. The terms of this Optional Coverage apply only to loss or damage that occurs:
  - (1) On or after the effective date of this Optional Coverage; and
  - (2) Before the Agreed Value expiration date shown in the Declarations or the policy expiration date, whichever occurs first.

## 2. Inflation Guard

- a. The Limit of Insurance for property to which this Optional Coverage applies will automatically increase by the annual percentage shown in the Declarations.
- b. The amount of increase will be:
  - (1) The Limit of Insurance that applied on the most recent of the policy inception date, the policy anniversary date, or any other policy change amending the Limit of Insurance, times
  - (2) The percentage of annual increase shown in the Declarations, expressed as a decimal (example: 8% is .08), times
  - (3) The number of days since the beginning of the current policy year or the effective date of the most recent policy change amending the Limit of Insurance, divided by 365.

### Example

If: The applicable Limit of Insurance is: \$ 100,000  
 The annual percentage increase is: 8%  
 The number of days since the beginning of the policy year (or last policy change) is: 146  
 The amount of increase is:  
 $\$100,000 \times .08 \times 146 \div 365 =$  \$ 3,200

## 3. Replacement Cost

- a. Replacement Cost (without deduction for depreciation) replaces Actual Cash Value in the Valuation Loss Condition of this Coverage Form.
- b. This Optional Coverage does not apply to:
  - (1) Personal property of others;
  - (2) Contents of a residence;
  - (3) Works of art, antiques or rare articles, including etchings, pictures, statuary, marbles, bronzes, porcelains and bric-a-brac; or

- (4) "Stock", unless the Including "Stock" option is shown in the Declarations.

Under the terms of this Replacement Cost Optional Coverage, tenants' improvements and betterments are not considered to be the personal property of others.

- c. You may make a claim for loss or damage covered by this insurance on an actual cash value basis instead of on a replacement cost basis. In the event you elect to have loss or damage settled on an actual cash value basis, you may still make a claim for the additional coverage this Optional Coverage provides if you notify us of your intent to do so within 180 days after the loss or damage.
- d. We will not pay on a replacement cost basis for any loss or damage:
  - (1) Until the lost or damaged property is actually repaired or replaced; and
  - (2) Unless the repair or replacement is made as soon as reasonably possible after the loss or damage.

With respect to tenants' improvements and betterments, the following also apply:

- (3) If the conditions in d.(1) and d.(2) above are not met, the value of tenants' improvements and betterments will be determined as a proportion of your original cost, as set forth in the Valuation Loss Condition of this Coverage Form; and
- (4) We will not pay for loss or damage to tenants' improvements and betterments if others pay for repairs or replacement.
- e. We will not pay more for loss or damage on a replacement cost basis than the least of (1), (2) or (3), subject to f. below:
  - (1) The Limit of Insurance applicable to the lost or damaged property;
  - (2) The cost to replace the lost or damaged property with other property:
    - (a) Of comparable material and quality; and
    - (b) Used for the same purpose; or
  - (3) The amount actually spent that is necessary to repair or replace the lost or damaged property.

If a building is rebuilt at a new premises, the cost described in e.(2) above is limited to the cost which would have been incurred if the building had been rebuilt at the original premises.

- f. The cost of repair or replacement does not include the increased cost attributable to enforcement of or compliance with any ordinance or law regulating the construction, use or repair of any property.

#### **4. Extension Of Replacement Cost To Personal Property Of Others**

- a. If the Replacement Cost Optional Coverage is shown as applicable in the Declarations, then this Extension may also be shown as applicable. If the Declarations show this Extension as applicable, then Paragraph **3.b.(1)** of the Replacement Cost Optional Coverage is deleted and all other provisions of the Replacement Cost Optional Coverage apply to replacement cost on personal property of others.

- b. With respect to replacement cost on the personal property of others, the following limitation applies:

If an item(s) of personal property of others is subject to a written contract which governs your liability for loss or damage to that item(s), then valuation of that item(s) will be based on the amount for which you are liable under such contract, but not to exceed the lesser of the replacement cost of the property or the applicable Limit of Insurance.

#### **H. Definitions**

1. "Fungus" means any type or form of fungus, including mold or mildew, and any mycotoxins, spores, scents or by-products produced or released by fungi.
2. "Pollutants" means any solid, liquid, gaseous or thermal irritant or contaminant, including smoke, vapor, soot, fumes, acids, alkalis, chemicals and waste. Waste includes materials to be recycled, reconditioned or reclaimed.
3. "Stock" means merchandise held in storage or for sale, raw materials and in-process or finished goods, including supplies used in their packing or shipping.

# LEGAL LIABILITY 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

We will pay those sums that you become legally obligated to pay as damages because of direct physical loss or damage, including loss of use, to Covered Property caused by accident and arising out of any Covered Cause of Loss. We will have the right and duty to defend any "suit" seeking those damages. However, we have no duty to defend you against a "suit" seeking damages for direct physical loss or damage to which this insurance does not apply. We may investigate and settle any claim or "suit" at our discretion. But:

- (1) The amount we will pay for damages is limited as described in Section C. Limits Of Insurance; and
- (2) Our right and duty to defend end when we have used up the Limit of Insurance in the payment of judgments or settlements.

### 1. Covered Property And Limitations

Covered Property, as used in this Coverage Form, means tangible property of others in your care, custody or control that is described in the Declarations or on the Legal Liability Coverage Schedule.

Covered Property does not include electronic data. 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. This paragraph does not apply to electronic data which is integrated in and operates or controls the building's elevator, lighting, heating, ventilation, air conditioning or security system.

### 2. Covered Causes Of Loss

See applicable Causes of Loss form as shown in the Declarations.

### 3. Additional Coverage

#### SUPPLEMENTARY PAYMENTS

We will pay, with respect to any claim or any "suit" against you we defend:

- a. All expenses we incur.
- b. The cost of bonds to release attachments, but only for bond amounts within our Limit of Insurance. We do not have to furnish these bonds.
- c. All reasonable expenses incurred by you at our request, including actual loss of earnings up to \$250 a day because of time off from work.
- d. All costs taxed against you in the "suit".
- e. Prejudgment interest awarded against you on that part of the judgment we pay. If we make an offer to pay the Limit of Insurance, we will not pay any prejudgment interest based on that period of time after the offer.
- f. All interest on the full amount of any judgment that accrues after entry of the judgment and before we have paid, offered to pay, or deposited in court the part of the judgment that is within our Limit of Insurance.

These payments will not reduce the applicable Limit of Insurance.

### 4. Coverage Extensions

#### a. Additional Insureds

If the Named Insured shown in the Declarations is a partnership, limited liability company or corporation, throughout this Coverage Form the words "you" and "your" include:

- (1) Partners, members, executive officers, trustees, directors and stockholders of such partnership, limited liability company or corporation, but only with respect to their duties as such; and
- (2) Managers of a limited liability company, but only with respect to their duties as such.

#### b. Newly Acquired Organizations

Throughout this Coverage Form, the words "you" and "your" also include any organization (other than a partnership, joint venture or limited liability company) you newly acquire or form and over which you maintain ownership or majority interest if there is no other similar insurance available to that organization.

This Coverage Extension ends:

- (1) 90 days after you acquire or form the organization; or
- (2) At the end of the policy period shown in the Declarations;

whichever is earlier.

This Extension does not apply to direct physical loss or damage that occurred before you acquired or formed the organization.

#### c. Newly Acquired Property

- (1) You may extend the insurance that applies to Covered Property, as used in this Coverage Form, to apply to your liability for tangible property of others that comes under your care, custody or control after the beginning of the current policy period. This Extension is subject to the following:

- (a) All terms and Conditions of this Coverage Form.

- (b) Buildings must be intended for:

- (i) Similar use as the building described in the Declarations or on the Legal Liability Coverage Schedule; or
- (ii) Use as a warehouse.

The most we will pay as the result of any one accident for loss or damage to buildings covered under this Extension is \$250,000 at each building.

- (c) Personal property must be at a location:

- (i) That you own; or
- (ii) That is or comes under your care, custody or control;

other than at fairs or exhibitions.

The most we will pay as the result of any one accident for loss or damage to personal property covered under this Extension is \$100,000 at each building.

- (2) Insurance under this Extension for each item of property of others will end when any of the following first occurs:

- (a) This policy expires;
- (b) 30 days expire after the property has come under your care, custody or control; or
- (c) You report values to us.



We will charge you additional premium for values reported from the date the property comes under your care, custody or control.

This Extension does not apply to direct physical loss or damage that occurred before the property came under your care, custody or control.

## **B. Exclusions And Limitations**

See applicable Causes of Loss form as shown in the Declarations.

## **C. Limits Of Insurance**

The most we will pay in damages as the result of any one accident is the applicable Limit Of Insurance shown on the Legal Liability Coverage Schedule, or in the Declarations.

Payments under the Additional Coverage and the Newly Acquired Property Coverage Extension are in addition to the Limits of Insurance.

The existence of one or more:

1. Additional Insureds; or
  2. Newly Acquired Organizations,
- does not increase the Limit of Insurance.

## **D. Loss Conditions**

The following conditions apply in addition to the Commercial Property Conditions:

### **1. Duties In The Event Of Accident, Claim Or Suit**

- a. You must see to it that we are notified promptly of any accident that may result in a claim. Notice should include:
  - (1) How, when and where the accident took place; and
  - (2) The names and addresses of any witnesses.

Notice of an accident is not notice of a claim.
- b. If a claim is made or "suit" is brought against you, you must see to it that we receive prompt written notice of the claim or "suit".
- c. You must:
  - (1) Immediately send us copies of any demands, notices, summonses or legal papers received in connection with the claim or "suit";
  - (2) Authorize us to obtain records and other information;
  - (3) Cooperate with us in the investigation, settlement or defense of the claim or "suit"; and

- (4) Assist us, upon our request, in the enforcement of any right against any person or organization that may be liable to you because of damage to which this insurance may also apply.

- d. You will not, except at your own cost, voluntarily make a payment, assume any obligation, or incur any expense without our consent.

## **2. Legal Action Against Us**

No person or organization has a right under this Coverage Form:

- a. To join us as a party or otherwise bring us into a "suit" asking for damages from you; or
- b. To sue us on this Coverage Form unless all of its terms have been fully complied with.

A person or organization may sue us to recover on an agreed settlement or on a final judgment against you obtained after an actual trial; but we will not be liable for damages that are not payable under the terms of this Coverage Form or that are in excess of the Limit of Insurance. An agreed settlement means a settlement and release of liability signed by us, you and the claimant or the claimant's legal representative.

## **3. Other Insurance**

You may have other insurance covering the same loss as the insurance under this Coverage Form. If you do, we will pay our share of the covered loss. Our share is the proportion that the Limit of Insurance under this Coverage Form covering such loss bears to the Limits of Insurance of all insurance covering the loss.

## **4. Transfer Of Rights Of Recovery Against Others To Us**

If you have rights to recover all or part of any payment we have made under this Coverage Form, those rights are transferred to us. You must do nothing after loss to impair them. At our request, you will bring "suit" or transfer those rights to us and help us enforce them.

## **E. Additional Conditions**

The following conditions apply in addition to the Common Policy Conditions:

### **1. Amendment Of Commercial Property Conditions**

None of the Commercial Property Conditions apply to this Coverage Form, except:

- a. Condition **A.** Concealment, Misrepresentation Or Fraud;

- b. Condition **C.** Insurance Under Two Or More Coverages; and
- c. Condition **E.** Liberalization.

**2. Bankruptcy**

Bankruptcy or insolvency of you or your estate will not relieve us of our obligations under this Coverage Form.

**3. Policy Period, Coverage Territory**

Under this Coverage Form:

- a. We will pay for loss or damage caused by an accident that occurs:
  - (1) During the Policy Period shown in the Declarations; and

- (2) Within the coverage territory.

- b. The coverage territory is:

- (1) The United States of America;
- (2) Puerto Rico; and
- (3) Canada.

**4. Separation Of Insureds**

The insurance under this Coverage Form applies separately to you and each additional insured, except with respect to the Limits of Insurance.

**F. Definitions**

"Suit" includes an arbitration proceeding to which you must submit or submit with our consent.



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## Section 2

# COMMERCIAL PROPERTY CAUSES OF LOSS & ENDORSEMENTS



## Commercial Property Causes Of Loss & Endorsements

### Section Goal

*In this section, participants will analyze the Causes Of Loss – Special Form to determine when a direct physical loss is excluded or limited under a Commercial Property Policy and how coverage may be modified.*

### Learning Objectives

1. Using knowledge of the Causes Of Loss – Special Form the participant will be able to identify and apply the exclusions in a claims situation and describe endorsements, if any, that may be used to modify the insurance coverage.
2. Using knowledge of the Causes Of Loss – Special Form the participant will be able to identify and apply the Limitations in a claims situation and identify endorsements, if any, that may be used to modify the insurance coverage.
3. Using knowledge of the Causes Of Loss – Special Form the participant will be able to identify and apply the Additional Coverages and the Additional Coverages Extensions in a claim situation.

## Overview of Causes Of Loss Forms

A Commercial Property Policy (CPP) must include a Causes Of Loss form. The Basic Form and the Broad Form provide coverage on what is known as a named peril basis. The Special Form provides coverage on what is known as an open peril basis. This section of the Commercial Property Institute will focus on the **Causes Of Loss – Special Form CP 10 30 09 17** and selected endorsements that may be used to modify the insurance coverage.

### Causes Of Loss – Basic Form CP 10 10 10 12

- Includes eleven named Causes of Loss
- Includes the Additional Coverage – Limited Coverage For “Fungus”, Wet Rot, Dry Rot And Bacteria

### Causes Of Loss – Broad Form CP 10 20 10 12

- Adds three named Causes of Loss and the Additional Coverage – Collapse

### Causes Of Loss – Special Form – CP 10 30 09 17

#### Sections of the Causes Of Loss Special Form

- A. Covered Causes Of Loss
- B. Exclusions
- C. Limitations
- D. Additional Coverage – Collapse
- E. Additional Coverage – Limited Coverage For "Fungus", Wet Rot, Dry Rot And Bacteria
- F. Additional Coverage Extensions
- G. Definitions

#### **CAUSES OF LOSS – SPECIAL FORM**

Words and phrases that appear in quotation marks have special meaning. Refer to Section G. Definitions.

##### **A. Covered Causes Of Loss**

When Special is shown in the Declarations, Covered Causes of Loss means direct physical loss unless the loss is excluded or limited in this policy.

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- Coverage for physical loss unless excluded or limited
- Burden of proof is on the insurer to show excluded/limited

## CAUSES OF LOSS FORMS – COMPARISON CHART

CAUSES OF LOSS	BASIC (10 10)	BROAD (10 20)	SPECIAL (10 30)
Fire	X	X	X
Lightning	X	X	X
Explosion	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
Theft			X
Direct Physical Loss			X

\* *Windstorm or Hail, Vandalism, and Sprinkler Leakage may be individually excluded by endorsement*

\*\* *Exclusion for vehicles owned/operated by named insured*

### **Learning Objective 1:**

Using knowledge of the Causes Of Loss – Special Form the participant will be able to identify and apply the exclusions in a claims situation and describe endorsements, if any, that may be used to modify the insurance coverage.

---

Paragraph **B**. Exclusions in the **Causes Of Loss – Special Form CP 10 30 09 17** breaks out the exclusions in groups which we will refer to as follows:

**Paragraph 1: Concurrent Causation/Sequential Causation Exclusions**

**Paragraph 2: Concurrent Causation Exclusions**

**Paragraph 3: Conditional Exclusions**

**Paragraph 4: Special Exclusions**

**Paragraph 5: Additional Exclusion**



## B. Exclusions

1. We will not pay for loss or damage caused directly or indirectly by any of the following. Such loss or damage is excluded regardless of any other cause or event that contributes concurrently or in any sequence to the loss.

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### Paragraph 1. Concurrent Causation/Sequential Causation Exclusions

- Anti-concurrent causation verbiage – modifies the operation of common law proximate causation rules
- Attempts to eliminate coverage for loss caused by one of these excluded Causes of Loss, even if the loss resulted from multiple causes and one of these causes is a Covered Cause of Loss

#### Paragraph 1. Exclusions

- a. Ordinance Or Law
- b. Earth Movement
- c. Governmental Action
- d. Nuclear Hazard
- e. Utility Services
- f. War And Military Action
- g. Water
- h. "Fungus", Wet Rot, Dry Rot And Bacteria

Anti-Concurrent Causation Exclusions

**a. Ordinance Or Law**

The enforcement of or compliance with any ordinance or law:

- (1) Regulating the construction, use or repair of any property; or
- (2) Requiring the tearing down of any property, including the cost of removing its debris.

This exclusion, Ordinance Or Law, applies whether the loss results from:

- (a) An ordinance or law that is enforced even if the property has not been damaged; or
- (b) The increased costs incurred to comply with an ordinance or law in the course of construction, repair, renovation, remodeling or demolition of property, or removal of its debris, following a physical loss to that property.

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**a. Ordinance Or Law**

- No coverage for loss resulting from enforcement of ordinances or laws
- Eliminates coverage for the extra costs of compliance with local building ordinances
- Also applies to Americans with Disabilities Act (ADA)
- **Ordinance Or Law Coverage CP 04 05 09 17**

*Our discussion of anti-concurrent causation exclusions will resume  
following a closer look at the endorsement:  
Ordinance Or Law Coverage CP 04 05 09 17*

## ORDINANCE OR LAW COVERAGE CP 04 05 09 17

### The Exposures

The exclusion Ordinance Or Law prohibits coverage for the following types of losses which are not directly caused by a Covered Cause of Loss but are a consequence of a Covered Cause of Loss. These losses result from compliance with laws or ordinances which do not permit restoring building property to the same condition as existed prior to the damage. These types of losses may result from:

- Loss of value of an undamaged portion of a building due to an ordinance or law, requiring the demolition of that undamaged portion
- Costs of demolition and debris removal of the undamaged portion of the building
- Increased cost of construction to repair or replace the building to comply with current building, zoning or land use laws or ordinances

### The Coverage Overview

#### Ordinance Or Law Coverage CP 04 05 09 17

- Allows the “buy-back” of coverage for the three excluded exposures:

#### Coverage A – Coverage For Loss To The Undamaged Portion Of The Building

#### Coverage B – Demolition Cost Coverage

#### Coverage C – Increased Cost Of Construction Coverage

- Coverage is provided for the cost to comply with minimum requirements imposed by ordinances or laws in force at the time of loss
- Endorsement also includes a Post-Loss Ordinance Or Law Option. If selected, coverage applies to codes that are revised after the loss but prior to the start of reconstruction or repair provided that compliance is required to obtain a building permit or certificate of occupancy
- Coverage is also included in the endorsement **Functional Building Valuation CP 04 38 09 17**

Policy Number

COMMERCIAL PROPERTY

CP 04 05 09 17

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

**ORDINANCE OR LAW COVERAGE**

This endorsement modifies insurance provided under the following:

BUILDING AND PERSONAL PROPERTY COVERAGE FORM

CONDOMINIUM ASSOCIATION COVERAGE FORM

STANDARD PROPERTY POLICY

**SCHEDULE**

Building Number/ Premises Number	Coverage A	Coverage B Limit Of Insurance	Coverage C Limit Of Insurance	Coverages B And C Combined Limit Of Insurance
/	<input type="checkbox"/>	\$	\$	\$
/	<input type="checkbox"/>	\$	\$	\$
/	<input type="checkbox"/>	\$	\$	\$

Post-Loss Ordinance Or Law Option: Yes ☐ No ☐\*Do **not** enter a Combined Limit of Insurance if individual Limits of Insurance are selected for Coverages **B** and **C**, or if one of these Coverages is not applicable.

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

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**The Coverage Explanation****Coverage A – Coverage For Loss To The Undamaged Portion Of The Building**

- Coverage is included within the Limit Of Insurance applicable to such building as shown in the Declarations or addressed elsewhere in the policy
- 80% or higher coinsurance is required (per CLM Rule)
- Coverage can be on a Replacement Cost or ACV basis

**Coverage B – Demolition Cost Coverage**

- Pays for demolition and debris removal of the undamaged portion of the building
- A limit must be indicated on the endorsement
- Coinsurance does not apply

### Coverage C – Increased Cost of Construction Coverage

- Pays for increased cost of construction to repair or replace the building to comply with current building, zoning or land use laws or ordinances
- Pays costs to repair, rebuild or remodel damaged and undamaged portions of the building to comply with laws and codes
- Coverage applies only if the restored property is intended for similar occupancy as the current property, unless such occupancy is no longer permitted
- Payment will not be made under Coverage C if the building is not repaired or replaced
- Replacement Cost option must be applicable on the building in order to have Coverage C (per CLM Rule)
- Coinsurance does not apply
- When Coverage C applies, the following are removed from Property Not Covered and provided coverage subject to the terms of this provision:
  - Cost of excavations, grading, backfilling and filling;
  - Foundation of the building;
  - Pilings; and
  - Underground pipes, flues and drains.
- If a building ordinance or law requires rebuilding at a different premises, Coverage C will include the increased cost of the building at the new location subject to the limit on the endorsement

**Note:**

Coverage A is included in the Building Limit on the Declarations. Coverages B and C can have separate Limits Of Insurance or can be a combined as a single Limit Of Insurance.

Anti-Concurrent Causation Exclusions

**b. Earth Movement**

- (1) Earthquake, including tremors and aftershocks and any earth sinking, rising or shifting related to such event;
- (2) Landslide, including any earth sinking, rising or shifting related to such event;
- (3) Mine subsidence, meaning subsidence of a man-made mine, whether or not mining activity has ceased;
- (4) Earth sinking (other than sinkhole collapse), rising or shifting including soil conditions which cause settling, cracking or other disarrangement of foundations or other parts of realty. Soil conditions include contraction, expansion, freezing, thawing, erosion, improperly compacted soil and the action of water under the ground surface.

But if Earth Movement, as described in **b.(1)** through **(4)** above, results in fire or explosion, we will pay for the loss or damage caused by that fire or explosion.

- (5) Volcanic eruption, explosion or effusion. But if volcanic eruption, explosion or effusion results in fire, building glass breakage or Volcanic Action, we will pay for the loss or damage caused by that fire, building glass breakage or Volcanic Action.

Volcanic Action means direct loss or damage resulting from the eruption of a volcano when the loss or damage is caused by:

- (a) Airborne volcanic blast or airborne shock waves;
- (b) Ash, dust or particulate matter; or
- (c) Lava flow.

With respect to coverage for Volcanic Action as set forth in **(5)(a)**, **(5)(b)** and **(5)(c)**, all volcanic eruptions that occur within any 168-hour period will constitute a single occurrence.

Volcanic Action does not include the cost to remove ash, dust or particulate matter that does not cause direct physical loss or damage to the described property.

This exclusion applies regardless of whether any of the above, in Paragraphs **(1)** through **(5)**, is caused by an act of nature or is otherwise caused.

**b. Earth Movement**

- No coverage provided for Earth Movement – other than sinkhole collapse – except for ensuing fire or explosion
- No coverage for volcanic eruption – except for ensuing fire, building glass breakage or Volcanic Action

- **Earthquake And Volcanic Eruption Endorsement With Percentage Deductible CP 10 40 02 19 OR Earthquake And Volcanic Eruption Coverage With Flat-Dollar Deductible CP 10 28 02 19** (does not change covered property)
  - Modifies the Commercial Property Coverage Part
    - The **Building And Personal Property Coverage Form CP 00 10 10 12**, Electronic Data Additional Coverage cannot have additional Covered Causes of Loss added by endorsement
  - Adds Earthquake and Volcanic Eruption as Covered Causes of Loss
  - If the Schedule indicates that this endorsement covers Earthquake – Sprinkler Leakage Only, then only Sprinkler Leakage resulting from earthquake and volcanic eruption is covered.
  - Specifically excludes damage from tsunamis, even if caused by an Earthquake or Volcanic Eruption
  - Application of deductible varies, based on whether the coverage is Specific Insurance, Blanket Insurance or Builders Risk Insurance
    - **Earthquake And Volcanic Eruption Coverage Endorsement (Sub-Limit Form With Percentage Deductible) CP 10 45 02 19 OR Earthquake And Volcanic Eruption Coverage (Sub-Limit Form With Flat-Dollar Deductible)**  
  
An alternative to **CP 10 40**. Used in situations only where sublimits are available.
- **Difference In Conditions (DIC) Policy** is a non-filed policy that is written as an insurance solution that is typically designed to fill in gaps between policies that do not cover a specific cause of loss

**c. Governmental Action**

Seizure or destruction of property by order of governmental authority.

But we will pay for loss or damage caused by or resulting from acts of destruction ordered by governmental authority and taken at the time of a fire to prevent its spread, if the fire would be covered under this Coverage Part.

**d. Nuclear Hazard**

Nuclear reaction or radiation, or radioactive contamination, however caused.

But if nuclear reaction or radiation, or radioactive contamination, results in fire, we will pay for the loss or damage caused by that fire.

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**c. Governmental Action**

- No coverage unless the destruction is ordered to prevent the spread of fire

**d. Nuclear Hazard**

- No coverage except for ensuing fire
- **Radioactive Contamination CP 10 37 10 00**
  - This endorsement can be used to modify all of the Causes Of Loss forms
  - Provides coverage for direct physical damage due to sudden and accidental Radioactive Contamination on either a *Limited* or *Broad* basis (selected in the Schedule):

Limited means that the contamination will be covered if it results from a Covered Cause of Loss

Broad means that the Contamination itself is considered a Covered Cause of Loss
  - Both options exclude damage if a nuclear reactor, or any new or used fuel (intended for a nuclear reactor), is present at the described premises or the contamination arises from radioactive material not located at the described premises



**e. Utility Services**

The failure of power, communication, water or other utility service supplied to the described premises, however caused, if the failure:

- (1) Originates away from the described premises; or
- (2) Originates at the described premises, but only if such failure involves equipment used to supply the utility service to the described premises from a source away from the described premises.

Failure of any utility service includes lack of sufficient capacity and reduction in supply.

Loss or damage caused by a surge of power is also excluded, if the surge would not have occurred but for an event causing a failure of power.

But if the failure or surge of power, or the failure of communication, water or other utility service, results in a Covered Cause of Loss, we will pay for the loss or damage caused by that Covered Cause of Loss.

Communication services include but are not limited to service relating to Internet access or access to any electronic, cellular or satellite network.

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**e. Utility Services**

- No coverage for loss caused by utility service failure that originates away from the described premises except if it results in a Covered Cause of Loss
- No coverage for loss caused by utility services failure that originates at the described premises if it involves equipment that is used to supply the utility service from a source away from the described premises (e.g., loss to transmission lines on premises) except if it results in a Covered Cause of Loss
- No coverage caused by power surge if the surge results from an event causing a power failure except if it results in a Covered Cause of Loss
- Applies to direct damage and time element losses

- **Utility Services – Direct Damage CP 04 17 10 12**
  - Modifies the Building And Personal Property Coverage Form
  - Provides coverage for damage that results from the interruption of a utility service to Covered Property described in the Schedule.
  - The interruption must have resulted from a Covered Cause of Loss to the following types of Utility Services:
    - Water Supply Services
    - Communication Supply Services
    - Power Supply Services
  - Coverage for each type of Utility Service must be indicated in the Schedule; the insured must also select if they want to include overhead transmission lines

- **Spoilage Coverage CP 04 40 06 07**
  - Modifies coverage under the BPPCF
  - Coverage is provided for damage to “perishable stock”, as defined, for Breakdown or Contamination and/or Power Outage when indicated on the Schedule
  - Breakdown or Contamination means:
    - A change in temperature or humidity resulting from mechanical breakdown or failure of refrigerating, cooling, or humidity control equipment; and
    - Contamination by a refrigerant
  - Power Outage means a change in temperature or humidity due to the total or partial interruption of electrical power caused by circumstances beyond the named insured’s control
  - “Perishable stock” can be valued at its Selling Price if indicated in the Schedule
  - Named insured may receive premium credit for entering into a refrigeration maintenance or service agreement

*Anti-Concurrent Causation Exclusions*

**f. War And Military Action**

- (1) War, including undeclared or civil war;
- (2) Warlike action by a military force, including action in hindering or defending against an actual or expected attack, by any government, sovereign or other authority using military personnel or other agents; or
- (3) Insurrection, rebellion, revolution, usurped power, or action taken by governmental authority in hindering or defending against any of these.

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**f. War And Military Action**

Anti-Concurrent Causation Exclusions

**g. Water**

- (1) Flood, surface water, waves (including tidal wave and tsunami), tides, tidal water, overflow of any body of water, or spray from any of these, all whether or not driven by wind (including storm surge);
- (2) Mudslide or mudflow;
- (3) Water that backs up or overflows or is otherwise discharged from a sewer, drain, sump, sump pump or related equipment;
- (4) Water under the ground surface pressing on, or flowing or seeping through:
  - (a) Foundations, walls, floors or paved surfaces;
  - (b) Basements, whether paved or not; or
  - (c) Doors, windows or other openings; or
- (5) Waterborne material carried or otherwise moved by any of the water referred to in Paragraph (1), (3) or (4), or material carried or otherwise moved by mudslide or mudflow.

This exclusion applies regardless of whether any of the above, in Paragraphs (1) through (5), is caused by an act of nature or is otherwise caused. An example of a situation to which this exclusion applies is the situation where a dam, levee, seawall or other boundary or containment system fails in whole or in part, for any reason, to contain the water.

But if any of the above, in Paragraphs (1) through (5), results in fire, explosion or sprinkler leakage, we will pay for the loss or damage caused by that fire, explosion or sprinkler leakage (if sprinkler leakage is a Covered Cause of Loss).

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**g. Water**

- No coverage for loss or damage caused by flood, surface water, mudslide, sewer backup or hydrostatic pressure except for ensuing fire, explosion or sprinkler leakage
- **Difference In Conditions (DIC) Policy**
- **National Flood Insurance Program (NFIP)** – Insurance program administered by the U.S. Federal Government, which provides limited coverage for damage that results from flooding
  - This Coverage is required for all government-sponsored property loans and for property loans originating from federally regulated financial institutions

**C. Additional Covered Cause Of Loss**

The following is added to the Covered Causes of Loss:

Flood, meaning a general and temporary condition of partial or complete inundation of normally dry land areas due to:

1. The overflow of inland or tidal waters;
2. The unusual or rapid accumulation or runoff of surface waters from any source; or
3. Mudslides or mudflows which are caused by flooding as defined in **C.2.** above. For the purpose of this Covered Cause of Loss, a mudslide or mudflow involves a river of liquid and flowing mud on the surface of normally dry land areas as when earth is carried by a current of water and deposited along the path of the current.

All flooding in a continuous or protracted event will constitute a single flood.

CP 10 65 10 12

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- **Flood Coverage Endorsement CP 10 65 10 12**

- Modifies the Commercial Property Coverage Part

In the **Building And Personal Property Coverage Form CP 00 10 10 12**, Electronic Data Additional Coverage cannot have additional Covered Causes of Loss added by endorsement

- Adds Flood as a Covered Cause of Loss with the definition listed above
- Addresses some of the coverage gaps left by the NFIP – General Property Form
- Insured must carry an NFIP Policy, or the Underlying Insurance Waiver in the Flood Schedule must be indicated
- Coverage is provided on an annual aggregate basis
- Can use the same valuation method as the underlying policy
- Deductibles can be defined either in the flood Schedule or in the Declarations
- In the event of an ensuing loss (e.g., following a flood, a fire breaks out), the policy will pay no more than the amount to repair the property damage
- Regarding ensuing losses: if there is a separate deductible for flood, then the higher deductible applies

- **Discharge From Sewer, Drain Or Sump (Not Flood Related)**  
**CP 10 38 10 12**
  - Endorsement that modifies coverage under the time element coverage forms as well as the BPPCF
  - Requires specifying a Discharge Limit in the Schedule, which may be on an Annual Aggregate basis
  - Covers direct physical loss to Covered Property caused by a sewer, drain or sump located on the described premises
  - Loss cannot be caused by flood or be due to the insured's failure to maintain the property
  - Loss following a power failure is also excluded unless policy is endorsed to include **Utility Services – Direct Damage**  
**CP 04 17 10 12**

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

Presence, growth, proliferation, spread or any activity of "fungus", wet or dry rot or bacteria.

But if "fungus", wet or dry rot or bacteria result in a "specified cause of loss", we will pay for the loss or damage caused by that "specified cause of loss".

This exclusion does not apply:

- (1) When "fungus", wet or dry rot or bacteria result from fire or lightning; or
- (2) To the extent that coverage is provided in 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.

Exclusions **B.1.a.** through **B.1.h.** apply whether or not the loss event results in widespread damage or affects a substantial area.

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

- No coverage for loss or damage due to "fungus", wet rot, dry rot or bacteria except if it results in a "specified cause of loss"

**Exceptions**

- (1) Coverage applies if loss or damage results from fire or lightning  
or
- (2) Other than fire or lightning, to the extent of coverage provided under the Additional Coverage – Limited Coverage For "Fungus", Wet Rot, Dry Rot, And Bacteria

– We will discuss this Additional Coverage later in this section.

**G. Definitions**

1. "Fungus" means any type or form of fungus, including mold or mildew, and any mycotoxins, spores, scents or by-products produced or released by fungi.
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.

...

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**Note:**

All of the exclusions in Paragraph **B.1.a. through B.1.h.** (the concurrent causation/sequential causation exclusions) apply regardless of the extent of loss or damage

2. We will not pay for loss or damage caused by or resulting from any of the following:

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## **Paragraph 2. Concurrent Causation Exclusions**

- These exclusions eliminate coverage only for loss or damage from the specific excluded cause of loss

### **Paragraph 2. Exclusions**

- a. Artificially generated electrical, magnetic or electromagnetic energy
- b. Delay, loss of use or loss of market.
- c. Smoke, vapor or gas
- d. Typical open peril exclusions
- e. Explosion of steam apparatus, etc.
- g. Freezing of plumbing
- h. Dishonest or criminal acts by specific individuals
- f. Seepage or Leakage of Water
- i. False Pretense
- j. Rain, snow, sleet – personal property in the open
- k. Collapse
- l. Damage caused by Pollutants
- m. Neglect to save and preserve property



- a. Artificially generated electrical, magnetic or electromagnetic energy that damages, disturbs, disrupts or otherwise interferes with any:

- (1) Electrical or electronic wire, device, appliance, system or network; or
- (2) Device, appliance, system or network utilizing cellular or satellite technology.

For the purpose of this exclusion, electrical, magnetic or electromagnetic energy includes but is not limited to:

- (a) Electrical current, including arcing;
- (b) Electrical charge produced or conducted by a magnetic or electromagnetic field;
- (c) Pulse of electromagnetic energy; or
- (d) Electromagnetic waves or microwaves.

But if fire results, we will pay for the loss or damage caused by that fire.

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a. Certain types of energy

- No coverage for loss or damage to or interference with electrical or electronic devices that utilize cellular or satellite technology when caused by artificially generated electrical, magnetic or electromagnetic energy except for ensuing fire
- **Equipment Breakdown Cause Of Loss CP 10 46 10 12**
  - Modifies Causes Of Loss – Special Form
  - Adds “Breakdown” of “Covered Equipment” to the list of Covered Causes of Loss.
  - Enables the Commercial Property Coverage Part to respond to losses due to artificially generated electrical current as well as certain mechanical failures and the failure of pressure or vacuum equipment
- **Equipment Breakdown Protection Coverage Form EB 00 20 01 13**
  - Provides similar protection but under a separate coverage part
- **Electronic Data Processing (EDP) Policy**
  - Inland marine policy which provides property coverage for losses to electronic data.
  - Additional information on EDP policies is not within the scope of this Institute

Concurrent Causation Exclusions

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

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

- Consequential loss
- No coverage for loss or damage caused by or resulting from delay, loss of use or loss of market
- Reinforces direct damage requirement

Concurrent Causation Exclusions

**c. Smoke, vapor or gas from agricultural smudging or industrial operations.**

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**c. Smoke, vapor, gas**

- Applicable to only certain operations
- No coverage for loss or damage due to smoke, vapor or gas from agricultural smudging

Agricultural smudging is the process by which certain fruit crops are protected from frost by burning crude oil, creating a smog that prevents the cold air from freezing the plants.

- No coverage for smoke vapor or gas from industrial operations
- Loss or damage from predictable losses is not usually insured

- d. (1) Wear and tear;  
(2) Rust or other corrosion, decay, deterioration, hidden or latent defect or any quality in property that causes it to damage or destroy itself;  
(3) Smog;  
(4) Settling, cracking, shrinking or expansion;  
(5) Nesting or infestation, or discharge or release of waste products or secretions, by insects, birds, rodents or other animals.  
(6) Mechanical breakdown, including rupture or bursting caused by centrifugal force. But if mechanical breakdown results in elevator collision, we will pay for the loss or damage caused by that elevator collision.  
(7) The following causes of loss to personal property:  
(a) Dampness or dryness of atmosphere;  
(b) Changes in or extremes of temperature; or  
(c) Marring or scratching.

But if an excluded cause of loss that is listed in 2.d.(1) through (7) results in a "specified cause of loss" or building glass breakage, we will pay for the loss or damage caused by that "specified cause of loss" or building glass breakage.

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d. Typical open peril exclusions

- No coverage for loss or damage due to wear and tear or anything that usually causes loss or damage over time, except, if it results in a "specified cause of loss" (as defined) or building glass breakage, the resultant loss or damage is covered
- **Equipment Breakdown Cause Of Loss CP 10 46 10 12**

Concurrent Causation Exclusions

- e. Explosion of steam boilers, steam pipes, steam engines or steam turbines owned or leased by you, or operated under your control. But if explosion of steam boilers, steam pipes, steam engines or steam turbines results in fire or combustion explosion, we will pay for the loss or damage caused by that fire or combustion explosion. We will also pay for loss or damage caused by or resulting from the explosion of gases or fuel within the furnace of any fired vessel or within the flues or passages through which the gases of combustion pass.

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e. Explosion of steam apparatus

- No coverage for loss or damage due to explosion of steam boilers, steam pipes, steam engines or steam turbines if the named insured owns them or leases them or operates them except for ensuing fire or combustion explosion; also covered is loss or damage from the explosion of gases or fuel within the flues, passages or furnace of any fired vessel
- **Equipment Breakdown Cause Of Loss CP 10 46 10 12**

Concurrent Causation Exclusions

- f. Continuous or repeated seepage or leakage of water, or the presence or condensation of humidity, moisture or vapor, that occurs over a period of 14 days or more.

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f. Seepage or Leakage of Water

- No coverage for losses resulting from any gradual or ongoing condition of 14 days or more that usually would have been discovered and corrected with proper maintenance of the property
- No coverage for mold losses resulting from faulty construction materials and methods
- No coverage for losses resulting from the accumulation of moisture unless the accumulation results from a Covered Cause of Loss such as fire

2. We will not pay for loss or damage caused by or resulting from any of the following:
- g. Water, other liquids, powder or molten material that leaks or flows from plumbing, heating, air conditioning or other equipment (except fire protective systems) caused by or resulting from freezing, unless:
    - (1) You do your best to maintain heat in the building or structure; or
    - (2) You drain the equipment and shut off the supply if the heat is not maintained.

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g. Freezing of plumbing

**EXCEPTIONS:**

- (1) When the Insured has attempted to maintain the heat in the building; or
- (2) When the insured drained the equipment and shut off the water supply if heat not maintained

Concurrent Causation Exclusions

- h. Dishonest or criminal act (including theft) by you, any of your partners, members, officers, managers, employees (including temporary employees and leased workers), directors, trustees or authorized representatives, whether acting alone or in collusion with each other or with any other party; or theft by any person to whom you entrust the property for any purpose, whether acting alone or in collusion with any other party.

This exclusion:

- (1) Applies whether or not an act occurs during your normal hours of operation;
- (2) Does not apply to acts of destruction by your employees (including temporary employees and leased workers) or authorized representatives; but theft by your employees (including temporary employees and leased workers) or authorized representatives is not covered.

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h. Dishonest or criminal acts by specific individuals

- Misnomer is often employee dishonesty but refers to much more than employee dishonesty; includes leased workers as well as company execs – regardless of collusion (could include nonemployees) and regardless of whether an act occurs during work hours (could be “outside the scope of employment”)
- Applies to anyone to whom the named insured entrusts the property
- Would not apply to vandalism loss committed by an employee (including a leased worker)

Concurrent Causation Exclusions

- i. Voluntary parting with any property by you or anyone else to whom you have entrusted the property if induced to do so by any fraudulent scheme, trick, device or false pretense.

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i. False Pretense

- No coverage for theft if named insured or someone to whom a named insured has entrusted the property (e.g., an employee) has voluntarily parted with the property as a result of some sort of trickery

j. Rain, snow, ice or sleet to personal property in the open.

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j. Rain, snow, sleet – personal property in the open

- No coverage for precipitation damage to personal property left in the open exposed to the elements – this is a predictable type loss

Concurrent Causation Exclusions

k. Collapse, including any of the following conditions of property or any part of the property:

- (1) An abrupt falling down or caving in;
- (2) Loss of structural integrity, including separation of parts of the property or property in danger of falling down or caving in; or
- (3) Any cracking, bulging, sagging, bending, leaning, settling, shrinkage or expansion as such condition relates to (1) or (2) above.

But if collapse results in a Covered Cause of Loss at the described premises, we will pay for the loss or damage caused by that Covered Cause of Loss.

This exclusion, k., does not apply:

- (a) To the extent that coverage is provided under the Additional Coverage, Collapse; or
- (b) To collapse caused by one or more of the following:
  - (i) The "specified causes of loss";
  - (ii) Breakage of building glass;
  - (iii) Weight of rain that collects on a roof; or
  - (iv) Weight of people or personal property.

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k. Collapse

- No coverage for the peril of collapse
- Coverage is given back only to the extent of the Additional Coverage – Collapse or if the collapse is caused by “specified causes of loss”
  - We will discuss the Additional Coverage – Collapse later in this section
- If collapse leads to a Covered Cause of Loss, that loss or damage is covered

Concurrent Causation Exclusions

- I. Discharge, dispersal, seepage, migration, release or escape of "pollutants" unless the discharge, dispersal, seepage, migration, release or escape is itself caused by any of the "specified causes of loss". But if the discharge, dispersal, seepage, migration, release or escape of "pollutants" results in a "specified cause of loss", we will pay for the loss or damage caused by that "specified cause of loss".

This exclusion, I., does not apply to damage to glass caused by chemicals applied to the glass...

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I. Damage caused by Pollutants

- No coverage for loss or damage by pollutants unless the release of the pollutant is caused by one of the name perils included in the definition of "specified causes of loss"
- Coverage applies if release of pollutant results in one of the named perils included in the definition of "specified causes of loss" – loss or damage from ensuing loss is covered
- Exclusion does not apply to damage to glass caused by chemicals applied to the glass

Concurrent Causation Exclusions

- m. Neglect of an insured to use all reasonable means to save and preserve property from further damage at and after the time of loss...

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m. Neglect to save and preserve property

- No coverage for additional loss that is the result of an insured's failure to take reasonable means to save and preserve the property



- 3.** We will not pay for loss or damage caused by or resulting from any of the following, **3.a.** through **3.c.** But if an excluded cause of loss that is listed in **3.a.** through **3.c.** results in a Covered Cause of Loss, we will pay for the loss or damage caused by that Covered Cause of Loss.

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### Paragraph 3. Conditional Exclusions

These exclusions are in direct response to court decisions applying concurrent causation *theories* where losses from *potentially* multiple causes of loss have been provided coverage if the predominant cause of loss was not specifically excluded

#### Conditional Exclusions

- a.** Weather conditions. But this exclusion only applies if weather conditions contribute in any way with a cause or event excluded in Paragraph **1.** above to produce the loss or damage.

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**a.** Weather conditions

- No coverage for weather conditions that contribute in any way to the excluded Causes Of Loss for Ordinance Or Law, Earth Movement, Governmental Action, Nuclear Hazard, Utility Services, War And Military Action, Water and “Fungus”, Wet Rot, Dry Rot and Bacteria
- Examples include where weather conditions were held to be concurrent with flood, mudslide and/or earth movement

#### Conditional Exclusions

- b.** Acts or decisions, including the failure to act or decide, of any person, group, organization or governmental body.

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**b.** Acts or decisions

- No coverage for acts or decisions of any person, group, organization or governmental body

Conditional Exclusions

- c. Faulty, inadequate or defective:
- (1) Planning, zoning, development, surveying, siting;
  - (2) Design, specifications, workmanship, repair, construction, renovation, remodeling, grading, compaction;
  - (3) Materials used in repair, construction, renovation or remodeling; or
  - (4) Maintenance;  
of part or all of any property on or off the described premises.

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c. Faulty, inadequate or defective

- No coverage for losses resulting from faulty, inadequate or defective...
- Jurisdictions may take different views on faults or defects in the work *process* versus faults or defects in the work *product*
- And the faulty, inadequate or defective... may occur on or off the described premises

4. Special Exclusions

The following provisions apply only to the specified Coverage Forms:

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**Paragraph 4. Special Exclusions**

Paragraph **a.** and **b.** that apply to the two following forms will be discussed in detail in the Time Element Coverages and Endorsements section of this Institute.

- Business Income (And Extra Expense) Coverage Form, Business Income (Without Extra Expense) Coverage Form or Extra Expense Coverage Form
- Leasehold Interest Coverage Form

**c. Legal Liability Coverage Form**

(1) The following exclusions do not apply to insurance under this Coverage Form:

- (a) Paragraph **B.1.a.** Ordinance Or Law;
- (b) Paragraph **B.1.c.** Governmental Action;
- (c) Paragraph **B.1.d.** Nuclear Hazard;
- (d) Paragraph **B.1.e.** Utility Services; and
- (e) Paragraph **B.1.f.** War And Military Action.

(2) The following additional exclusions apply to insurance under this Coverage Form:

**(a) Contractual Liability**

We will not defend any claim or "suit", or pay damages that you are legally liable to pay, solely by reason of your assumption of liability in a contract or agreement. But this exclusion does not apply to a written lease agreement in which you have assumed liability for building damage resulting from an actual or attempted burglary or robbery, provided that:

- (i) Your assumption of liability was executed prior to the accident; and
- (ii) The building is Covered Property under this Coverage Form.

**(b) Nuclear Hazard**

We will not defend any claim or "suit", or pay any damages, loss, expense or obligation, resulting from nuclear reaction or radiation, or radioactive contamination, however caused.

- **Legal Liability Coverage Form**
  - Voids exclusions that would otherwise apply
  - No coverage for liability assumed under contract except for building damage resulting from an actual/attempted burglary or robbery if the building is covered property and the contract was executed prior to loss – this is a coverage form to provide tort liability coverage for the named insured
  - Nuclear hazard exclusion that was voided in paragraph (1) is replaced in paragraph (2) with an exclusion that indicates there is no coverage and no defense for the nuclear hazard

**5. Additional Exclusion**

The following provisions apply only to the specified property:

**Loss Or Damage To Products**

We will not pay for loss or damage to any merchandise, goods or other product caused by or resulting from error or omission by any person or entity (including those having possession under an arrangement where work or a portion of the work is outsourced) in any stage of the development, production or use of the product, including planning, testing, processing, packaging, installation, maintenance or repair. This exclusion applies to any effect that compromises the form, substance or quality of the product. But if such error or omission results in a Covered Cause of Loss, we will pay for the loss or damage caused by that Covered Cause of Loss.

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**Paragraph 5. Additional Exclusion**

- No coverage for loss or damage when errors or omissions in production of the product result in goods that have little or no value or that must be destroyed except for ensuing loss

**Available endorsements:**

**1. Exclusion Of Loss Due To By-Products Of Production Or Processing Operations (Rental Properties) CP 10 34 10 12**

- Exclusion endorsement that modifies coverage under the time element forms as well as the Building And Personal Property Coverage Form
- Eliminates coverage for damage caused by smoke, vapor, or any other substance released resulting from a tenant's operations
  - States clearly that it does not matter if the loss results from the tenant's customary operations, or whether or not those operations are legal or illegal
- Fire caused by the release of the by-products is still covered

**2. Watercraft Exclusion CP 10 35 06 95**

The following is added to the EXCLUSIONS section:

We will not pay for loss or damage to the following property caused by or resulting from watercraft:

- A. Retaining walls that are not part of a building;
- B. Bulkheads; or
- C. Pilings, piers, wharves or docks.

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- Modifies the Causes Of Loss – Special Form by eliminating coverage for damage by watercraft in the following way:
- Damage caused by the collision of watercraft is not affected by this endorsement; only damage to the types of property listed is excluded when the damage is caused by watercraft
- Policy must also be endorsed to cover listed property with **Additional Covered Property CP 14 10 06 95**

**A.** The following is added to the Commercial Property Conditions:

**Protective Safeguards**

As a condition of this insurance, you are required to:

1. Maintain the protective safeguards listed in the Schedule, and over which you have control, in complete working order;
2. Actively engage and maintain in the "on" position at all times any automatic fire alarm or other automatic system listed in the Schedule; and
3. Notify us if you know of any suspension of or impairment in any protective safeguard listed in the Schedule.

However, if part of an Automatic Sprinkler System or Automatic Commercial Cooking Exhaust And Extinguishing System is shut off due to breakage, leakage, freezing conditions or opening of sprinkler heads, notification to us will not be necessary if you can restore full protection within 48 hours.

**B.** The following is added to the **Exclusions** section of: ...

We will not pay for loss or damage caused by or resulting from fire if, prior to the fire, you failed to comply with any condition set forth in Paragraph **A**.

**C.** The protective safeguards to which this endorsement applies are identified by the following symbols:

**"P-1" Automatic Sprinkler System**, including related supervisory services. ...

**"P-2" Automatic Fire Alarm**, protecting the entire building, that is: ...

**"P-3" Security Service**, with a recording system or watch clock, making hourly rounds covering the entire building, when the premises are not in actual operation.

**"P-4" Service Contract** with a privately owned fire department providing fire protection service to the described premises.

**"P-5" Automatic Commercial Cooking Exhaust And Extinguishing System** installed on cooking appliances and having the following components: ...

**"P-9"**, the protective system described in the Schedule.

**3. Protective Safeguards CP 04 11 09 17**

- Modifies the BPP Coverage Form by creating conditions that require the insured to maintain and have actively engaged protective safeguards and/or services and to notify of any suspension or impairment
- Modifies the Causes Of Loss Forms by adding an exclusion for failure to comply with the conditions
- Symbols in the Schedule are used to identify the applicable protective safeguards

4. **Burglary And Robbery Protective Safeguards CP 12 11 09 17**

- Similarly modifies the Commercial Property Coverage Part by creating conditions that require the insured to maintain and have actively engaged protective safeguards and/or services, which are identified by a symbol in the Schedule, and to notify of any suspension or impairment
- Suspends theft coverage if conditions are not complied with

5. Other Causes of Loss exclusion endorsements

- **Theft Exclusion CP 10 33 10 12** – Excludes theft from Causes Of Loss Special Form
- **Windstorm Or Hail Exclusion CP 10 54 06 07** – Direct and indirect damage excluded
- **Vandalism Exclusion CP 10 55 06 07** – Vandalism added to exclusion section and not considered a Covered Cause of Loss
- **Sprinkler Leakage Exclusion CP 10 56 06 07** – Removes coverage caused by sprinkler leakage



## Knowledge Check 1

1. Ordinance or Law is excluded, but the CPP can be modified with **Ordinance Or Law Coverage CP 04 05**. Coverages available under this form are:

Coverage A – Coverage For Loss To The Undamaged Portion Of The Building

Coverage B – Demolition Cost Coverage

Coverage C – Increased Cost Of Construction (ICC) Coverage

Indicate whether the following statements are True or False.

	True	False
a. Coverage A is automatically provided when this endorsement is attached.		
b. Cost for the loss in value to the undamaged portion of the building under Coverage A is included in the building limit in the Declarations, not in the endorsement schedule.		
c. When activated on the endorsement schedule, Coverage B applies to demolition cost and debris removal of the damaged building.		
d. When activated on the endorsement schedule, Coverage C must have its own separate limit.		
e. When activated on the endorsement schedule, Coverage C pays for the ICC for both the damaged and undamaged portion of the building.		

2. Under the unendorsed policy, indicate which of the following statements are True or False.

	True	False
a. There is an exception to the Utility Services exclusion for spoilage when loss is caused by a loss of power that originates away from the premises.		
b. Water damage caused by freezing of pipes is always covered.		



### Learning Objective 2:

Using knowledge of the Causes Of Loss – Special Form the participant will be able to identify and apply the Limitations in a claims situation and identify endorsements, if any, that may be used to modify the insurance coverage.

#### C. Limitations

The following limitations apply to all policy forms and endorsements, unless otherwise stated.

1. We will not pay for loss of or damage to property, as described and limited in this section. In addition, we will not pay for any loss that is a consequence of loss or damage as described and limited in this section.

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#### 1. Specific Property

No coverage for damage to property as described/limited. No coverage for any other consequential loss except for specific givebacks.

Specific Property Limitations

1. We will not pay for loss of or damage to property, as described and limited in this section. In addition, we will not pay for any loss that is a consequence of loss or damage as described and limited in this section.
  - a. Steam boilers, steam pipes, steam engines or steam turbines caused by or resulting from any condition or event inside such equipment. But we will pay for loss of or damage to such equipment caused by or resulting from an explosion of gases or fuel within the furnace of any fired vessel or within the flues or passages through which the gases of combustion pass.
  - b. Hot water boilers or other water heating equipment caused by or resulting from any condition or event inside such boilers or equipment, other than an explosion.
  - c. The interior of any building or structure, or to personal property in the building or structure, caused by or resulting from rain, snow, sleet, ice, sand or dust, whether driven by wind or not, unless:
    - (1) The building or structure first sustains damage by a Covered Cause of Loss to its roof or walls through which the rain, snow, sleet, ice, sand or dust enters; or
    - (2) The loss or damage is caused by or results from thawing of snow, sleet or ice on the building or structure.

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- a. No coverage for damage to steam boilers, steam pipes, steam engines or steam turbines caused by a condition inside the equipment with an exception for damage caused by an explosion of gases or fuel within the furnace of a fired vessel or within the flues or passages through which the gases of combustion pass – **Equipment Breakdown Cause Of Loss CP 10 46 10 12**
- b. No coverage for damage to hot water heaters caused by a condition inside the equipment unless caused by explosion – **Equipment Breakdown Cause Of Loss CP 10 46 10 12**
- c. No coverage for loss or damage to interior of building or to personal property in the building or structure caused by rain, snow, sleet, ice, sand or dust, even if driven by wind (unless caused by *ice dam* or if walls or roof of building have been damaged by a Covered Cause of Loss)

1. We will not pay for loss of or damage to property, as described and limited in this section. In addition, we will not pay for any loss that is a consequence of loss or damage as described and limited in this section.

...

- d. Building materials and supplies not attached as part of the building or structure, caused by or resulting from theft.

However, this limitation does not apply to:

- (1) Building materials and supplies held for sale by you, unless they are insured under the Builders Risk Coverage Form; or
- (2) Business Income Coverage or Extra Expense Coverage.

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d. No coverage for theft of building materials and supplies

- This limitation does not apply if the building materials are held for sale by named insured unless they are insured by the Builders Risk Coverage Form
- This limitation does not apply to Business Income coverage or Extra Expense Coverage
- **Builders Risk – Theft Of Building Materials, Fixtures, Machinery, And Equipment CP 11 21 10 12**
  - Pays for loss that results from theft of building materials located on the described premises which are intended to become a permanent part of the building
  - Can use the same deductible as the building or a separate deductible can be indicated in the Schedule
  - Does not provide coverage for:
    - Dishonest or criminal acts as excluded in the Causes Of Loss – Special Form
    - Voluntary Parting
    - Property that is missing with no physical evidence of what happened to the property

**Specific Property Limitations**

1. We will not pay for loss of or damage to property, as described and limited in this section. In addition, we will not pay for any loss that is a consequence of loss or damage as described and limited in this section.

...

- e. Property that is missing, where the only evidence of the loss or damage is a shortage disclosed on taking inventory, or other instances where there is no physical evidence to show what happened to the property.

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- e. No coverage for property that is missing if there is no physical evidence to show what happened to it

**Specific Property Limitations**

- f. Property that has been transferred to a person or to a place outside the described premises on the basis of unauthorized instructions.

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- f. No coverage for property that has been transferred away from the described premises on the basis of unauthorized instructions
    - This limitation responds to an exposure that may be covered by a Crime Policy or the Crime Coverage Part of a Commercial Package Policy. Further discussion is beyond the scope of this institute and will be discussed at the Commercial Multiline Institute

**Specific Property Limitations**

- g. Lawns, trees, shrubs or plants which are part of a vegetated roof, caused by or resulting from:
    - (1) Dampness or dryness of atmosphere or of soil supporting the vegetation;
    - (2) Changes in or extremes of temperature;
    - (3) Disease;
    - (4) Frost or hail; or
    - (5) Rain, snow, ice or sleet.

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- g. No coverage for predictable-type losses to items that are part of vegetated roof

**Specific Perils Exclusions**

2. We will not pay for loss of or damage to the following types of property unless caused by the "specified causes of loss" or building glass breakage:
  - a. Animals, and then only if they are killed or their destruction is made necessary.
  - b. Fragile articles such as statuary, marbles, chinaware and porcelains, if broken. This restriction does not apply to:
    - (1) Glass; or
    - (2) Containers of property held for sale.
  - c. Builders' machinery, tools and equipment owned by you or entrusted to you, provided such property is Covered Property.  
However, this limitation does not apply:
    - (1) If the property is located on or within 100 feet of the described premises, unless the premises is insured under the Builders Risk Coverage Form; or
    - (2) To Business Income Coverage or to Extra Expense Coverage.

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**2. Specific Perils that are not covered unless caused by "specified causes of loss" (as defined) or building glass breakage:**

- a. Animals, as described
- b. Fragile articles, as described
  - Exception for glass or containers of property held for sale
- c. Exception for builders' machinery, tools and equipment that is covered property and located within 100 feet of the described premises unless the premises is insured under the Builders Risk Coverage Form
  - Exception for builders' machinery, tools and equipment as respects Business Income Coverage or Extra Expense Coverage

3. The special limit shown for each category, **a.** through **d.**, is the total limit for loss of or damage to all property in that category. The special limit applies to any one occurrence of theft, regardless of the types or number of articles that are lost or damaged in that occurrence. The special limits are (unless a higher limit is shown in the Declarations):

- a. \$2,500 for furs, fur garments and garments trimmed with fur.
- b. \$2,500 for jewelry, watches, watch movements, jewels, pearls, precious and semiprecious stones, bullion, gold, silver, platinum and other precious alloys or metals. This limit does not apply to jewelry and watches worth \$100 or less per item.
- c. \$2,500 for patterns, dies, molds and forms.
- d. \$250 for stamps, tickets, including lottery tickets held for sale, and letters of credit.

These special limits are part of, not in addition to, the Limit of Insurance applicable to the Covered Property.

This limitation, **C.3.**, does not apply to Business Income Coverage or to Extra Expense Coverage.

### 3. Special Limits

- Special limits apply to specific property for peril of theft
- Limitation does not apply to Business Income Coverage or Extra Expense Coverage

4. We will not pay the cost to repair any defect to a system or appliance from which water, other liquid, powder or molten material escapes. But we will pay the cost to repair or replace damaged parts of fire extinguishing equipment if the damage:

- a. Results in discharge of any substance from an automatic fire protection system; or
- b. Is directly caused by freezing.

However, this limitation does not apply to Business Income Coverage or to Extra Expense Coverage.

### 4. Specific Defects

- No coverage for the cost of repairing any defect to an *appliance* from which water, other liquid, powder or molten material escapes except fire extinguishing equipment if the damage results in a discharge from an automatic fire protection system or is caused by freezing
- Limitation does not apply to Business Income Coverage or Extra Expense Coverage

- **Limitation On Coverage For Roof Surfacing CP 10 36 10 12**
  - Modifies coverage under the BPPCF
  - Applies in one (or both) of the following ways, as indicated in the Schedule:
    - Limits Replacement Cost coverage by making roofing material (e.g., shingles, tiles, metal, membranes, etc.) valued at actual cash value, even if the rest of the building is valued at replacement cost
    - Excludes damage where the result is only cosmetic; this means that if the roof continues to function as it did prior to the damage, then there is no payment

### **Learning Objective 3:**

Using knowledge of the Causes Of Loss – Special Form the participant will be able to identify and apply the Additional Coverages and the Additional Coverages Extensions in a claim situation.

---

#### **D. Additional Coverage – Collapse**

The coverage provided under this Additional Coverage – Collapse applies only to an abrupt collapse as described and limited in **D.1.** through **D.7.**

1. For the purpose of this Additional Coverage – Collapse, abrupt collapse means an abrupt falling down or caving in of a building or any part of a building with the result that the building or part of the building cannot be occupied for its intended purpose.

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#### **Additional Coverage – Collapse**

1. Collapse means an abrupt falling down or caving in of a building or any part of a building with the result that the building or part of the building cannot be occupied for its intended purpose



#### D. Additional Coverage – Collapse

The coverage provided under this Additional Coverage – Collapse applies only to an abrupt collapse as described and limited in **D.1.** through **D.7.**

...

2. We will pay for direct physical loss or damage to Covered Property, caused by abrupt collapse of a building or any part of a building that is insured under this Coverage Form or that contains Covered Property insured under this Coverage Form, if such collapse is caused by one or more of the following:
  - a. Building decay that is hidden from view, unless the presence of such decay is known to an insured prior to collapse;
  - b. Insect or vermin damage that is hidden from view, unless the presence of such damage is known to an insured prior to collapse;
  - c. Use of defective material or methods in construction, remodeling or renovation if the abrupt collapse occurs during the course of the construction, remodeling or renovation.
  - d. Use of defective material or methods in construction, remodeling or renovation if the abrupt collapse occurs after the construction, remodeling or renovation is complete, but only if the collapse is caused in part by:
    - (1) A cause of loss listed in **2.a.** or **2.b.**;
    - (2) One or more of the "specified causes of loss";
    - (3) Breakage of building glass;
    - (4) Weight of people or personal property; or
    - (5) Weight of rain that collects on a roof.

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2. Adds coverage for loss due to abrupt collapse (as described) of a building or part of a building from specific causes and damage to personal property while within a building that is a result of the abrupt collapse
  - a. Building decay that is hidden from view unless known prior to collapse
  - b. Insect or vermin damage that is hidden from view unless known prior to collapse
  - c. Use of defective material if the abrupt collapse occurs during the course of the construction, remodeling or renovation
  - d. Use of defective material if the abrupt collapse occurs after the construction, remodeling or renovation is complete, but only if the collapse is caused in part by:
    - 1) A cause of loss listed in 2.a. or 2.b.;
    - 2) One or more of the "specified causes of loss";
    - 3) Breakage of building glass;
    - 4) Weight of people or personal property; or
    - 5) Weight of rain that collects on a roof.

3. This **Additional Coverage – Collapse** does **not** apply to:
- a. A building or any part of a building that is in danger of falling down or caving in;
  - b. A part of a building that is standing, even if it has separated from another part of the building; or
  - c. A building that is standing or any part of a building that is standing, even if it shows evidence of cracking, bulging, sagging, bending, leaning, settling, shrinkage or expansion.

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3. Identifies certain conditions of a building that are not covered by this additional coverage; does not cover loss of *structural integrity*

4. With respect to the following property:
- a. Outdoor radio or television antennas (including satellite dishes) and their lead-in wiring, masts or towers;
  - b. Awnings, gutters and downspouts;
  - c. Yard fixtures;
  - d. Outdoor swimming pools;
  - e. Fences;
  - f. Piers, wharves and docks;
  - g. Beach or diving platforms or appurtenances;
  - h. Retaining walls; and
  - i. Walks, roadways and other paved surfaces;
- if an abrupt collapse is caused by a cause of loss listed in **2.a.** through **2.d.**, we will pay for loss or damage to that property only if:
- (1) Such loss or damage is a direct result of the abrupt collapse of a building insured under this Coverage Form; and
  - (2) The property is Covered Property under this Coverage Form.

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4. Identifies certain types of property that are provided this coverage only if it is covered property and collapse is caused by a covered abrupt collapse of a covered building

5. If personal property abruptly falls down or caves in and such collapse is **not** the result of abrupt collapse of a building, we will pay for loss or damage to Covered Property caused by such collapse of personal property only if:
  - a. The collapse of personal property was caused by a cause of loss listed in **2.a.** through **2.d.**;
  - b. The personal property which collapses is inside a building; and
  - c. The property which collapses is not of a kind listed in **4.**, regardless of whether that kind of property is considered to be personal property or real property.

The coverage stated in this Paragraph **5.** does not apply to personal property if marring and/or scratching is the only damage to that personal property caused by the collapse.
6. This Additional Coverage, Collapse, does not apply to personal property that has not abruptly fallen down or caved in, even if the personal property shows evidence of cracking, bulging, sagging, bending, leaning, settling, shrinkage or expansion.
7. This Additional Coverage, Collapse, will not increase the Limits of Insurance provided in this Coverage Part.
8. The term Covered Cause of Loss includes the Additional Coverage, Collapse, as described and limited in **D.1.** through **D.7.**

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5. Adds coverage for the abrupt collapse of personal property for the same causes of loss as the building as long as the personal property is inside the building and is not one of the types of property previously identified or if marring or scratching is the only damage caused by the collapse

**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 occurs 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.

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

1. Only applies when the "fungus", wet or dry rot, or bacteria is the result of the "specified causes of loss" (other than fire or lightning) or flood (if endorsement applies) and all reasonable means were used to save and preserve the property from further damage
2. Includes tearing out, remediation and testing

3. The coverage described under **E.2.** of this Limited Coverage is limited to \$15,000. Regardless of the number of claims, this limit is the most we will pay for the total of all loss or damage arising out of all occurrences of "specified causes of loss" (other than fire or lightning) and Flood which take place in a 12-month period (starting with the beginning of the present annual policy period). With respect to a particular occurrence of loss which results in "fungus", wet or dry rot or bacteria, we will not pay more than a total of \$15,000 even if the "fungus", wet or dry rot or bacteria continues to be present or active, or recurs, in a later policy period.
4. The coverage provided under this Limited Coverage does not increase the applicable Limit of Insurance on any Covered Property. If a particular occurrence results in loss or damage by "fungus", wet or dry rot or bacteria, and other loss or damage, we will not pay more, for the total of all loss or damage, than the applicable Limit of Insurance on the affected Covered Property.  
  
If there is covered loss or damage to Covered Property, not caused by "fungus", wet or dry rot or bacteria, loss payment will not be limited by the terms of this Limited Coverage, except to the extent that "fungus", wet or dry rot or bacteria causes an increase in the loss. Any such increase in the loss will be subject to the terms of this Limited Coverage.
5. The terms of this Limited Coverage do not increase or reduce the coverage provided under Paragraph **F.2.** (Water Damage, Other Liquids, Powder Or Molten Material Damage) of this Causes Of Loss Form or under the Additional Coverage – Collapse.
6. The following, **6.a.** or **6.b.**, applies only if Business Income and/or Extra Expense Coverage applies to the described premises and only if the "suspension" of "operations" satisfies all terms and conditions of the applicable Business Income and/or Extra Expense Coverage Form.
  - a. If the loss which resulted in "fungus", wet or dry rot or bacteria does not in itself necessitate a "suspension" of "operations", but such "suspension" is necessary due to loss or damage to property caused by "fungus", wet or dry rot or bacteria, then our payment under Business Income and/or Extra Expense is limited to the amount of loss and/or expense sustained in a period of not more than 30 days. The days need not be consecutive.
  - b. If a covered "suspension" of "operations" was caused by loss or damage other than "fungus", wet or dry rot or bacteria but remediation of "fungus", wet or dry rot or bacteria prolongs the "period of restoration", we will pay for loss and/or expense sustained during the delay (regardless of when such a delay occurs during the "period of restoration"), but such coverage is limited to 30 days. The days need not be consecutive.

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3. \$15,000 annual aggregate
4. Does not increase the applicable Limit of Insurance
5. Does not affect Paragraph F.2.
6. 30 days maximum business income coverage and/or extra expense coverage if the suspension is due to the “fungus”, wet or dry rot, or bacteria
  - 30 days maximum additional if suspension is due to another cause of loss and remediation prolongs the period of restoration

Endorsement available:

**Changes – Fungus, Wet Rot, Dry Rot, And Bacteria CP 04 31 04 02**

- A. In the Limited Coverage For Fungus, Wet Rot, Dry Rot And Bacteria, the amount of \$15,000 is deleted and replaced by the amount indicated in the Schedule.
- B. If the Schedule indicates that the Separate Premises Or Locations Option applies, then the amount of coverage (\$15,000, unless a higher amount is shown in the Schedule) is made applicable to separate premises or locations as described in the Schedule. For each premises or location so described, the amount of coverage is an annual aggregate limit, subject to the terms set forth in Paragraph 3. of the Limited Coverage For Fungus, Wet Rot, Dry Rot And Bacteria.
- C. The coverage provided under this endorsement does not increase the applicable Limit of Insurance on any Covered Property. If a particular occurrence results in loss or damage by "fungus", wet or dry rot or bacteria, and other loss or damage, we will not pay more, for the total of all loss or damage, than the applicable Limit of Insurance on the affected Covered Property.
- D. Under the Limited Coverage For Fungus, Wet Rot, Dry Rot And Bacteria, in the section applicable to Business Income and/or Extra Expense coverage, the number of days (30 days) in both paragraphs is deleted and replaced by the number of days indicated in the Schedule.

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- Used to increase the \$15,000 annual aggregate or increase the time allotted for business income or extra expense coverage

**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.

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**Additional Coverage Extensions**

**1. Property In Transit**

- Provides named perils coverage for covered personal property (other than property in ccc of salespersons) while in transit on vehicles the named insured owns, leases or operates, subject to a maximum of \$5,000
- Additional insurance and Coinsurance do not apply

**2. Water Damage, Other Liquids, Powder Or Molten Material Damage**

If loss or damage caused by or resulting from covered water or other liquid, powder or molten material damage loss occurs, we will also pay the cost to tear out and replace any part of the building or structure to repair damage to the system or appliance from which the water or other substance escapes. This Coverage Extension does not increase the Limit of Insurance.

**3. Glass**

- a. We will pay for expenses incurred to put up temporary plates or board up openings if repair or replacement of damaged glass is delayed.
- b. We will pay for expenses incurred to remove or replace obstructions when repairing or replacing glass that is part of a building. This does not include removing or replacing window displays.

This Coverage Extension **F.3.** does not increase the Limit of Insurance.

**2. Cost to tear out and replace**

- While the coverage will not pay to repair the defective *item* from which covered water or other liquid, powder or molten material damage loss occurs, it will pay the cost of tearing out and replacing any part of the building or structure to repair the *item*

**3. Glass**

- a. If repair or replacement of damaged glass *is delayed*, coverage applies to temporary board-ups
- b. If there are obstructions when repairing building glass damage (other than window displays), coverage applies to remove and replace these obstructions



### G. Definitions

1. "Fungus" means any type or form of fungus, including mold or mildew, and any mycotoxins, spores, scents or by-products produced or released by fungi.
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.
  - c. Water damage means:
    - (1) Accidental discharge or leakage of water or steam as the direct result of the breaking apart or cracking of a plumbing, heating, air conditioning or other system or appliance (other than a sump system including its related equipment and parts), that is located on the described premises and contains water or steam; and
    - (2) Accidental discharge or leakage of water or waterborne material as the direct result of the breaking apart or cracking of a water or sewer pipe caused by wear and tear, when the pipe is located off the described premises and is connected to or is part of a potable water supply system or sanitary sewer system operated by a public or private utility service provider pursuant to authority granted by the state or governmental subdivision where the described premises are located.

But water damage does not include loss or damage otherwise excluded under the terms of the Water Exclusion. Therefore, for example, there is no coverage under this policy in the situation in which discharge or leakage of water results from the breaking apart or cracking of a pipe which was caused by or related to weather-induced flooding, even if wear and tear contributed to the breakage or cracking. As another example, and also in accordance with the terms of the Water Exclusion, there is no coverage for loss or damage caused by or related to weather-induced flooding which follows or is exacerbated by pipe breakage or cracking attributable to wear and tear.

To the extent that accidental discharge or leakage of water falls within the criteria set forth in **c.(1)** or **c.(2)** of this definition of "specified causes of loss," such water is not subject to the provisions of the Water Exclusion which preclude coverage for surface water or water under the surface of the ground.

Defines words or phrases with special meaning used in the **Causes Of Loss – Special Form**

## Exclusion Of Loss Due To Virus Or Bacteria CP 01 40

### EXCLUSION OF LOSS DUE TO VIRUS OR BACTERIA

This endorsement modifies insurance provided under the following:

COMMERCIAL PROPERTY COVERAGE PART

STANDARD PROPERTY POLICY

- A. The exclusion set forth in Paragraph B. applies to all coverage under all forms and endorsements that comprise this Coverage Part or Policy, including but not limited to forms or endorsements that cover property damage to buildings or personal property and forms or endorsements that cover business income, extra expense or action of civil authority.
- B. We will not pay for loss or damage caused by or resulting from any virus, bacterium or other microorganism that induces or is capable of inducing physical distress, illness or disease.  
However, this exclusion does not apply to loss or damage caused by or resulting from "fungus", wet rot or dry rot. Such loss or damage is addressed in a separate exclusion in this Coverage Part or Policy.
- C. With respect to any loss or damage subject to the exclusion in Paragraph B., such exclusion supersedes any exclusion relating to "pollutants".
- D. The following provisions in this Coverage Part or Policy are hereby amended to remove reference to bacteria:
  - 1. Exclusion of "Fungus", Wet Rot, Dry Rot And Bacteria; and
  - 2. Additional Coverage – Limited Coverage for "Fungus", Wet Rot, Dry Rot And Bacteria, including any endorsement increasing the scope or amount of coverage.
- E. The terms of the exclusion in Paragraph B., or the inapplicability of this exclusion to a particular loss, do not serve to create coverage for any loss that would otherwise be excluded under this Coverage Part or Policy.

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Mandatory amendatory endorsement applies to all coverage under all forms and endorsements that comprise the Commercial Property Policy

- No coverage for loss or damage caused by or resulting from any virus, bacterium or other microorganism that induces or is capable of inducing physical distress, illness or disease.

**Example:**

*No coverage for a named insured's product contaminated with the growth of the listeria bacteria*



## Knowledge Check 2

1. Indicated whether the below statements are true or false.

	True	False
a. Equipment breakdown is excluded except under certain conditions.		
b. A heavy rain storm occurs overnight. There is coverage when the named insured discovers significant water damage to the interior of the building because a window was left open.		
c. The named insured was aware of termite damage to a wood beam supporting the roof. There is an additional coverage in the event of collapse.		
d. A roof was constructed of defective material. There is a coverage if there is an abrupt collapse of the roof due to the weight of rain that collected on the roof.		

2. Which of the following is an accurate statement in regard to the named insureds personal property while being transported on vehicles the named insured owns, leases or operates?
- a. Coverage may be extended for personal property in transit that is in the care, custody or control of a salesperson up to the limit shown in the Declarations.
  - b. Coverage may be extended for personal property in transit, other than property in the care custody or control of a salesperson, up to the limit shown in the Declarations.
  - c. Coverage may be extended for personal property in transit, other than property in the care custody or control of a salesperson subject to a maximum limit of \$5,000.
  - d. There is no coverage extension for personal property in transit.

## **Review of Learning Objectives**

1. Using knowledge of the Causes Of Loss – Special Form the participant will be able to identify and apply the exclusions in a claims situation and describe endorsements, if any, that may be used to modify the insurance coverage.
2. Using knowledge of the Causes Of Loss – Special Form the participant will be able to identify and apply the Limitations in a claims situation and identify endorsements, if any, that may be used to modify the insurance coverage.
3. Using knowledge of the Causes Of Loss – Special Form the participant will be able to identify and apply the Additional Coverages and the Additional Coverages Extensions in a claim situation.



## Knowledge Check 1 – ANSWERS

1. Ordinance or Law is excluded, but the CPP can be modified with **Ordinance Or Law Coverage CP 04 05**. Coverages available under this form are:

Coverage A – Coverage For Loss To The Undamaged Portion Of The Building

Coverage B – Demolition Cost Coverage

Coverage C – Increased Cost Of Construction (ICC) Coverage

Indicate whether the following statements are True or False.

	True	False
a. Coverage A is automatically provided when this endorsement is attached.		X
b. Cost for the loss in value to the undamaged portion of the building under Coverage A is included in the building limit in the Declarations, not in the endorsement schedule.	X	
c. When activated on the endorsement schedule, Coverage B applies to demolition cost and debris removal of the damaged building.		X
d. When activated on the endorsement schedule, Coverage C must have its own separate limit.		X
e. When activated on the endorsement schedule, Coverage C pays for the ICC for both the damaged and undamaged portion of the building.	X	

2. Under the unendorsed policy, indicate which of the following statements are True or False.

	True	False
a. There is an exception to the Utility Services exclusion for spoilage when loss is caused by a loss of power that originates away from the premises.		X
b. Water damage caused by freezing of pipes is always covered.		X



## Knowledge Check 2 – ANSWERS

1. Indicated whether the below statements are true or false.

	True	False
a. Equipment breakdown is excluded except under certain conditions.	X	
b. A heavy rain storm occurs overnight. There is coverage when the named insured discovers significant water damage to the interior of the building because a window was left open.		X
c. The named insured was aware of termite damage to a wood beam supporting the roof. There is an additional coverage in the event of collapse.		X
d. A roof was constructed of defective material. There is a coverage if there is an abrupt collapse of the roof due to the weight of rain that collected on the roof.	X	

2. Which of the following is an accurate statement in regard to the named insureds personal property while being transported on vehicles the named insured owns, leases or operates?
- c. Coverage may be extended for personal property in transit, other than property in the care custody or control of a salesperson subject to a maximum limit of \$5,000.

## FORMS

2

<b>Form Name</b>	<b>Form Number</b>
Causes Of Loss – Special Form	<b>CP 10 30 09 17</b>
Ordinance Or Law Coverage	<b>CP 04 05 09 17</b>
Exclusion Of Loss Due to Virus Or Bacteria	<b>CP 01 40 07 06</b>

## CAUSES OF LOSS – SPECIAL FORM

Words and phrases that appear in quotation marks have special meaning. Refer to Section **G**. Definitions.

### A. Covered Causes Of Loss

When Special is shown in the Declarations, Covered Causes of Loss means direct physical loss unless the loss is excluded or limited in this policy.

### B. Exclusions

1. We will not pay for loss or damage caused directly or indirectly by any of the following. Such loss or damage is excluded regardless of any other cause or event that contributes concurrently or in any sequence to the loss.

#### a. Ordinance Or Law

The enforcement of or compliance with any ordinance or law:

- (1) Regulating the construction, use or repair of any property; or
- (2) Requiring the tearing down of any property, including the cost of removing its debris.

This exclusion, Ordinance Or Law, applies whether the loss results from:

- (a) An ordinance or law that is enforced even if the property has not been damaged; or
- (b) The increased costs incurred to comply with an ordinance or law in the course of construction, repair, renovation, remodeling or demolition of property, or removal of its debris, following a physical loss to that property.

#### b. Earth Movement

- (1) Earthquake, including tremors and aftershocks and any earth sinking, rising or shifting related to such event;
- (2) Landslide, including any earth sinking, rising or shifting related to such event;
- (3) Mine subsidence, meaning subsidence of a man-made mine, whether or not mining activity has ceased;

- (4) Earth sinking (other than sinkhole collapse), rising or shifting including soil conditions which cause settling, cracking or other disarrangement of foundations or other parts of realty. Soil conditions include contraction, expansion, freezing, thawing, erosion, improperly compacted soil and the action of water under the ground surface.

But if Earth Movement, as described in **b.(1)** through **(4)** above, results in fire or explosion, we will pay for the loss or damage caused by that fire or explosion.

- (5) Volcanic eruption, explosion or effusion. But if volcanic eruption, explosion or effusion results in fire, building glass breakage or Volcanic Action, we will pay for the loss or damage caused by that fire, building glass breakage or Volcanic Action.

Volcanic Action means direct loss or damage resulting from the eruption of a volcano when the loss or damage is caused by:

- (a) Airborne volcanic blast or airborne shock waves;
- (b) Ash, dust or particulate matter; or
- (c) Lava flow.

With respect to coverage for Volcanic Action as set forth in **(5)(a)**, **(5)(b)** and **(5)(c)**, all volcanic eruptions that occur within any 168-hour period will constitute a single occurrence.

Volcanic Action does not include the cost to remove ash, dust or particulate matter that does not cause direct physical loss or damage to the described property.

This exclusion applies regardless of whether any of the above, in Paragraphs **(1)** through **(5)**, is caused by an act of nature or is otherwise caused.



**c. Governmental Action**

Seizure or destruction of property by order of governmental authority.

But we will pay for loss or damage caused by or resulting from acts of destruction ordered by governmental authority and taken at the time of a fire to prevent its spread, if the fire would be covered under this Coverage Part.

**d. Nuclear Hazard**

Nuclear reaction or radiation, or radioactive contamination, however caused.

But if nuclear reaction or radiation, or radioactive contamination, results in fire, we will pay for the loss or damage caused by that fire.

**e. Utility Services**

The failure of power, communication, water or other utility service supplied to the described premises, however caused, if the failure:

- (1) Originates away from the described premises; or
- (2) Originates at the described premises, but only if such failure involves equipment used to supply the utility service to the described premises from a source away from the described premises.

Failure of any utility service includes lack of sufficient capacity and reduction in supply.

Loss or damage caused by a surge of power is also excluded, if the surge would not have occurred but for an event causing a failure of power.

But if the failure or surge of power, or the failure of communication, water or other utility service, results in a Covered Cause of Loss, we will pay for the loss or damage caused by that Covered Cause of Loss.

Communication services include but are not limited to service relating to Internet access or access to any electronic, cellular or satellite network.

**f. War And Military Action**

- (1) War, including undeclared or civil war;

- (2) Warlike action by a military force, including action in hindering or defending against an actual or expected attack, by any government, sovereign or other authority using military personnel or other agents; or

- (3) Insurrection, rebellion, revolution, usurped power, or action taken by governmental authority in hindering or defending against any of these.

**g. Water**

- (1) Flood, surface water, waves (including tidal wave and tsunami), tides, tidal water, overflow of any body of water, or spray from any of these, all whether or not driven by wind (including storm surge);

- (2) Mudslide or mudflow;

- (3) Water that backs up or overflows or is otherwise discharged from a sewer, drain, sump, sump pump or related equipment;

- (4) Water under the ground surface pressing on, or flowing or seeping through:

- (a) Foundations, walls, floors or paved surfaces;
- (b) Basements, whether paved or not; or
- (c) Doors, windows or other openings; or

- (5) Waterborne material carried or otherwise moved by any of the water referred to in Paragraph (1), (3) or (4), or material carried or otherwise moved by mudslide or mudflow.

This exclusion applies regardless of whether any of the above, in Paragraphs (1) through (5), is caused by an act of nature or is otherwise caused. An example of a situation to which this exclusion applies is the situation where a dam, levee, seawall or other boundary or containment system fails in whole or in part, for any reason, to contain the water.

But if any of the above, in Paragraphs (1) through (5), results in fire, explosion or sprinkler leakage, we will pay for the loss or damage caused by that fire, explosion or sprinkler leakage (if sprinkler leakage is a Covered Cause of Loss).

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

Presence, growth, proliferation, spread or any activity of "fungus", wet or dry rot or bacteria.

But if "fungus", wet or dry rot or bacteria result in a "specified cause of loss", we will pay for the loss or damage caused by that "specified cause of loss".

This exclusion does not apply:

- (1) When "fungus", wet or dry rot or bacteria result from fire or lightning; or
- (2) To the extent that coverage is provided in 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.

Exclusions **B.1.a.** through **B.1.h.** apply whether or not the loss event results in widespread damage or affects a substantial area.

**2. We will not pay for loss or damage caused by or resulting from any of the following:**

**a. Artificially generated electrical, magnetic or electromagnetic energy that damages, disturbs, disrupts or otherwise interferes with any:**

- (1) Electrical or electronic wire, device, appliance, system or network; or
- (2) Device, appliance, system or network utilizing cellular or satellite technology.

For the purpose of this exclusion, electrical, magnetic or electromagnetic energy includes but is not limited to:

- (a) Electrical current, including arcing;
- (b) Electrical charge produced or conducted by a magnetic or electromagnetic field;
- (c) Pulse of electromagnetic energy; or
- (d) Electromagnetic waves or microwaves.

But if fire results, we will pay for the loss or damage caused by that fire.

- b. Delay, loss of use or loss of market.**
- c. Smoke, vapor or gas from agricultural smudging or industrial operations.**

**d.(1) Wear and tear;**

(2) Rust or other corrosion, decay, deterioration, hidden or latent defect or any quality in property that causes it to damage or destroy itself;

(3) Smog;

(4) Settling, cracking, shrinking or expansion;

(5) Nesting or infestation, or discharge or release of waste products or secretions, by insects, birds, rodents or other animals.

(6) Mechanical breakdown, including rupture or bursting caused by centrifugal force. But if mechanical breakdown results in elevator collision, we will pay for the loss or damage caused by that elevator collision.

(7) The following causes of loss to personal property:

(a) Dampness or dryness of atmosphere;

(b) Changes in or extremes of temperature; or

(c) Marring or scratching.

But if an excluded cause of loss that is listed in **2.d.(1)** through **(7)** results in a "specified cause of loss" or building glass breakage, we will pay for the loss or damage caused by that "specified cause of loss" or building glass breakage.

**e. Explosion of steam boilers, steam pipes, steam engines or steam turbines owned or leased by you, or operated under your control. But if explosion of steam boilers, steam pipes, steam engines or steam turbines results in fire or combustion explosion, we will pay for the loss or damage caused by that fire or combustion explosion. We will also pay for loss or damage caused by or resulting from the explosion of gases or fuel within the furnace of any fired vessel or within the flues or passages through which the gases of combustion pass.**

**f. Continuous or repeated seepage or leakage of water, or the presence or condensation of humidity, moisture or vapor, that occurs over a period of 14 days or more.**

- g.** Water, other liquids, powder or molten material that leaks or flows from plumbing, heating, air conditioning or other equipment (except fire protective systems) caused by or resulting from freezing, unless:

- (1)** You do your best to maintain heat in the building or structure; or
- (2)** You drain the equipment and shut off the supply if the heat is not maintained.

- h.** Dishonest or criminal act (including theft) by you, any of your partners, members, officers, managers, employees (including temporary employees and leased workers), directors, trustees or authorized representatives, whether acting alone or in collusion with each other or with any other party; or theft by any person to whom you entrust the property for any purpose, whether acting alone or in collusion with any other party.

This exclusion:

- (1)** Applies whether or not an act occurs during your normal hours of operation;
  - (2)** Does not apply to acts of destruction by your employees (including temporary employees and leased workers) or authorized representatives; but theft by your employees (including temporary employees and leased workers) or authorized representatives is not covered.
- i.** Voluntary parting with any property by you or anyone else to whom you have entrusted the property if induced to do so by any fraudulent scheme, trick, device or false pretense.
- j.** Rain, snow, ice or sleet to personal property in the open.
- k.** Collapse, including any of the following conditions of property or any part of the property:
- (1)** An abrupt falling down or caving in;
  - (2)** Loss of structural integrity, including separation of parts of the property or property in danger of falling down or caving in; or
  - (3)** Any cracking, bulging, sagging, bending, leaning, settling, shrinkage or expansion as such condition relates to **(1)** or **(2)** above.

But if collapse results in a Covered Cause of Loss at the described premises, we will pay for the loss or damage caused by that Covered Cause of Loss.

This exclusion, **k.**, does not apply:

- (a)** To the extent that coverage is provided under the Additional Coverage, Collapse; or
  - (b)** To collapse caused by one or more of the following:
    - (i)** The "specified causes of loss";
    - (ii)** Breakage of building glass;
    - (iii)** Weight of rain that collects on a roof; or
    - (iv)** Weight of people or personal property.
  - l.** Discharge, dispersal, seepage, migration, release or escape of "pollutants" unless the discharge, dispersal, seepage, migration, release or escape is itself caused by any of the "specified causes of loss". But if the discharge, dispersal, seepage, migration, release or escape of "pollutants" results in a "specified cause of loss", we will pay for the loss or damage caused by that "specified cause of loss".
- This exclusion, **l.**, does not apply to damage to glass caused by chemicals applied to the glass.
- m.** Neglect of an insured to use all reasonable means to save and preserve property from further damage at and after the time of loss.
- 3.** We will not pay for loss or damage caused by or resulting from any of the following, **3.a.** through **3.c.** But if an excluded cause of loss that is listed in **3.a.** through **3.c.** results in a Covered Cause of Loss, we will pay for the loss or damage caused by that Covered Cause of Loss.
- a.** Weather conditions. But this exclusion only applies if weather conditions contribute in any way with a cause or event excluded in Paragraph **1.** above to produce the loss or damage.
  - b.** Acts or decisions, including the failure to act or decide, of any person, group, organization or governmental body.
  - c.** Faulty, inadequate or defective:
    - (1)** Planning, zoning, development, surveying, siting;
    - (2)** Design, specifications, workmanship, repair, construction, renovation, remodeling, grading, compaction;
    - (3)** Materials used in repair, construction, renovation or remodeling; or
    - (4)** Maintenance;

of part or all of any property on or off the described premises.

#### **4. Special Exclusions**

The following provisions apply only to the specified Coverage Forms:

##### **a. Business Income (And Extra Expense) Coverage Form, Business Income (Without Extra Expense) Coverage Form, Or Extra Expense Coverage Form**

We will not pay for:

- (1) Any loss caused by or resulting from:
  - (a) Damage or destruction of "finished stock"; or
  - (b) The time required to reproduce "finished stock".This exclusion does not apply to Extra Expense.
- (2) Any loss caused by or resulting from direct physical loss or damage to radio or television antennas (including satellite dishes) and their lead-in wiring, masts or towers.
- (3) Any increase of loss caused by or resulting from:
  - (a) Delay in rebuilding, repairing or replacing the property or resuming "operations", due to interference at the location of the rebuilding, repair or replacement by strikers or other persons; or
  - (b) Suspension, lapse or cancellation of any license, lease or contract. But if the suspension, lapse or cancellation is directly caused by the "suspension" of "operations", we will cover such loss that affects your Business Income during the "period of restoration" and any extension of the "period of restoration" in accordance with the terms of the Extended Business Income Additional Coverage and the Extended Period Of Indemnity Optional Coverage or any variation of these.
- (4) Any Extra Expense caused by or resulting from suspension, lapse or cancellation of any license, lease or contract beyond the "period of restoration".
- (5) Any other consequential loss.

##### **b. Leasehold Interest Coverage Form**

- (1) Paragraph **B.1.a.**, Ordinance Or Law, does not apply to insurance under this Coverage Form.
- (2) We will not pay for any loss caused by:
  - (a) Your cancelling the lease;
  - (b) The suspension, lapse or cancellation of any license; or
  - (c) Any other consequential loss.

##### **c. Legal Liability Coverage Form**

- (1) The following exclusions do not apply to insurance under this Coverage Form:
  - (a) Paragraph **B.1.a.** Ordinance Or Law;
  - (b) Paragraph **B.1.c.** Governmental Action;
  - (c) Paragraph **B.1.d.** Nuclear Hazard;
  - (d) Paragraph **B.1.e.** Utility Services; and
  - (e) Paragraph **B.1.f.** War And Military Action.
- (2) The following additional exclusions apply to insurance under this Coverage Form:

##### **(a) Contractual Liability**

We will not defend any claim or "suit", or pay damages that you are legally liable to pay, solely by reason of your assumption of liability in a contract or agreement. But this exclusion does not apply to a written lease agreement in which you have assumed liability for building damage resulting from an actual or attempted burglary or robbery, provided that:

- (i) Your assumption of liability was executed prior to the accident; and
- (ii) The building is Covered Property under this Coverage Form.

##### **(b) Nuclear Hazard**

We will not defend any claim or "suit", or pay any damages, loss, expense or obligation, resulting from nuclear reaction or radiation, or radioactive contamination, however caused.

## 5. Additional Exclusion

The following provisions apply only to the specified property:

### Loss Or Damage To Products

We will not pay for loss or damage to any merchandise, goods or other product caused by or resulting from error or omission by any person or entity (including those having possession under an arrangement where work or a portion of the work is outsourced) in any stage of the development, production or use of the product, including planning, testing, processing, packaging, installation, maintenance or repair. This exclusion applies to any effect that compromises the form, substance or quality of the product. But if such error or omission results in a Covered Cause of Loss, we will pay for the loss or damage caused by that Covered Cause of Loss.

## C. Limitations

The following limitations apply to all policy forms and endorsements, unless otherwise stated:

1. We will not pay for loss of or damage to property, as described and limited in this section. In addition, we will not pay for any loss that is a consequence of loss or damage as described and limited in this section.
  - a. Steam boilers, steam pipes, steam engines or steam turbines caused by or resulting from any condition or event inside such equipment. But we will pay for loss of or damage to such equipment caused by or resulting from an explosion of gases or fuel within the furnace of any fired vessel or within the flues or passages through which the gases of combustion pass.
  - b. Hot water boilers or other water heating equipment caused by or resulting from any condition or event inside such boilers or equipment, other than an explosion.
  - c. The interior of any building or structure, or to personal property in the building or structure, caused by or resulting from rain, snow, sleet, ice, sand or dust, whether driven by wind or not, unless:
    - (1) The building or structure first sustains damage by a Covered Cause of Loss to its roof or walls through which the rain, snow, sleet, ice, sand or dust enters; or
    - (2) The loss or damage is caused by or results from thawing of snow, sleet or ice on the building or structure.
- d. Building materials and supplies not attached as part of the building or structure, caused by or resulting from theft.
 

However, this limitation does not apply to:

  - (1) Building materials and supplies held for sale by you, unless they are insured under the Builders Risk Coverage Form; or
  - (2) Business Income Coverage or Extra Expense Coverage.
- e. Property that is missing, where the only evidence of the loss or damage is a shortage disclosed on taking inventory, or other instances where there is no physical evidence to show what happened to the property.
- f. Property that has been transferred to a person or to a place outside the described premises on the basis of unauthorized instructions.
- g. Lawns, trees, shrubs or plants which are part of a vegetated roof, caused by or resulting from:
  - (1) Dampness or dryness of atmosphere or of soil supporting the vegetation;
  - (2) Changes in or extremes of temperature;
  - (3) Disease;
  - (4) Frost or hail; or
  - (5) Rain, snow, ice or sleet.
2. We will not pay for loss of or damage to the following types of property unless caused by the "specified causes of loss" or building glass breakage:
  - a. Animals, and then only if they are killed or their destruction is made necessary.
  - b. Fragile articles such as statuary, marbles, chinaware and porcelains, if broken. This restriction does not apply to:
    - (1) Glass; or
    - (2) Containers of property held for sale.
  - c. Builders' machinery, tools and equipment owned by you or entrusted to you, provided such property is Covered Property.
 

However, this limitation does not apply:

    - (1) If the property is located on or within 100 feet of the described premises, unless the premises is insured under the Builders Risk Coverage Form; or

(2) To Business Income Coverage or to Extra Expense Coverage.

3. The special limit shown for each category, **a.** through **d.**, is the total limit for loss of or damage to all property in that category. The special limit applies to any one occurrence of theft, regardless of the types or number of articles that are lost or damaged in that occurrence. The special limits are (unless a higher limit is shown in the Declarations):

- a.** \$2,500 for furs, fur garments and garments trimmed with fur.
- b.** \$2,500 for jewelry, watches, watch movements, jewels, pearls, precious and semiprecious stones, bullion, gold, silver, platinum and other precious alloys or metals. This limit does not apply to jewelry and watches worth \$100 or less per item.
- c.** \$2,500 for patterns, dies, molds and forms.
- d.** \$250 for stamps, tickets, including lottery tickets held for sale, and letters of credit.

These special limits are part of, not in addition to, the Limit of Insurance applicable to the Covered Property.

This limitation, **C.3.**, does not apply to Business Income Coverage or to Extra Expense Coverage.

4. We will not pay the cost to repair any defect to a system or appliance from which water, other liquid, powder or molten material escapes. But we will pay the cost to repair or replace damaged parts of fire-extinguishing equipment if the damage:

- a.** Results in discharge of any substance from an automatic fire protection system; or
- b.** Is directly caused by freezing.

However, this limitation does not apply to Business Income Coverage or to Extra Expense Coverage.

#### **D. Additional Coverage – Collapse**

The coverage provided under this Additional Coverage, Collapse, applies only to an abrupt collapse as described and limited in **D.1.** through **D.7.**

1. For the purpose of this Additional Coverage, Collapse, abrupt collapse means an abrupt falling down or caving in of a building or any part of a building with the result that the building or part of the building cannot be occupied for its intended purpose.

2. We will pay for direct physical loss or damage to Covered Property, caused by abrupt collapse of a building or any part of a building that is insured under this Coverage Form or that contains Covered Property insured under this Coverage Form, if such collapse is caused by one or more of the following:

- a.** Building decay that is hidden from view, unless the presence of such decay is known to an insured prior to collapse;
- b.** Insect or vermin damage that is hidden from view, unless the presence of such damage is known to an insured prior to collapse;
- c.** Use of defective material or methods in construction, remodeling or renovation if the abrupt collapse occurs during the course of the construction, remodeling or renovation.
- d.** Use of defective material or methods in construction, remodeling or renovation if the abrupt collapse occurs after the construction, remodeling or renovation is complete, but only if the collapse is caused in part by:

- (1) A cause of loss listed in **2.a.** or **2.b.**;
- (2) One or more of the "specified causes of loss";
- (3) Breakage of building glass;
- (4) Weight of people or personal property; or
- (5) Weight of rain that collects on a roof.

3. This **Additional Coverage – Collapse** does not apply to:

- a.** A building or any part of a building that is in danger of falling down or caving in;
- b.** A part of a building that is standing, even if it has separated from another part of the building; or
- c.** A building that is standing or any part of a building that is standing, even if it shows evidence of cracking, bulging, sagging, bending, leaning, settling, shrinkage or expansion.

4. With respect to the following property:

- a.** Outdoor radio or television antennas (including satellite dishes) and their lead-in wiring, masts or towers;

- b. Awnings, gutters and downspouts;
  - c. Yard fixtures;
  - d. Outdoor swimming pools;
  - e. Fences;
  - f. Piers, wharves and docks;
  - g. Beach or diving platforms or appurtenances;
  - h. Retaining walls; and
  - i. Walks, roadways and other paved surfaces;
- if an abrupt collapse is caused by a cause of loss listed in **2.a.** through **2.d.**, we will pay for loss or damage to that property only if:

- (1) Such loss or damage is a direct result of the abrupt collapse of a building insured under this Coverage Form; and
- (2) The property is Covered Property under this Coverage Form.

5. If personal property abruptly falls down or caves in and such collapse is **not** the result of abrupt collapse of a building, we will pay for loss or damage to Covered Property caused by such collapse of personal property only if:
- a. The collapse of personal property was caused by a cause of loss listed in **2.a.** through **2.d.**;
  - b. The personal property which collapses is inside a building; and
  - c. The property which collapses is not of a kind listed in **4.**, regardless of whether that kind of property is considered to be personal property or real property.

The coverage stated in this Paragraph **5.** does not apply to personal property if marring and/or scratching is the only damage to that personal property caused by the collapse.

- 6. This Additional Coverage, Collapse, does not apply to personal property that has not abruptly fallen down or caved in, even if the personal property shows evidence of cracking, bulging, sagging, bending, leaning, settling, shrinkage or expansion.
- 7. This Additional Coverage, Collapse, will not increase the Limits of Insurance provided in this Coverage Part.
- 8. The term Covered Cause of Loss includes the Additional Coverage, Collapse, as described and limited in **D.1.** through **D.7.**

#### **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.

3. The coverage described under **E.2.** of this Limited Coverage is limited to \$15,000. Regardless of the number of claims, this limit is the most we will pay for the total of all loss or damage arising out of all occurrences of "specified causes of loss" (other than fire or lightning) and Flood which take place in a 12-month period (starting with the beginning of the present annual policy period). With respect to a particular occurrence of loss which results in "fungus", wet or dry rot or bacteria, we will not pay more than a total of \$15,000 even if the "fungus", wet or dry rot or bacteria continue to be present or active, or recur, in a later policy period.

4. The coverage provided under this Limited Coverage does not increase the applicable Limit of Insurance on any Covered Property. If a particular occurrence results in loss or damage by "fungus", wet or dry rot or bacteria, and other loss or damage, we will not pay more, for the total of all loss or damage, than the applicable Limit of Insurance on the affected Covered Property.

If there is covered loss or damage to Covered Property, not caused by "fungus", wet or dry rot or bacteria, loss payment will not be limited by the terms of this Limited Coverage, except to the extent that "fungus", wet or dry rot or bacteria cause an increase in the loss. Any such increase in the loss will be subject to the terms of this Limited Coverage.

5. The terms of this Limited Coverage do not increase or reduce the coverage provided under Paragraph F.2. (Water Damage, Other Liquids, Powder Or Molten Material Damage) of this Causes Of Loss form or under the Additional Coverage, Collapse.
6. The following, 6.a. or 6.b., applies only if Business Income and/or Extra Expense Coverage applies to the described premises and only if the "suspension" of "operations" satisfies all terms and conditions of the applicable Business Income and/or Extra Expense Coverage Form:
- a. If the loss which resulted in "fungus", wet or dry rot or bacteria does not in itself necessitate a "suspension" of "operations", but such "suspension" is necessary due to loss or damage to property caused by "fungus", wet or dry rot or bacteria, then our payment under Business Income and/or Extra Expense is limited to the amount of loss and/or expense sustained in a period of not more than 30 days. The days need not be consecutive.
  - b. If a covered "suspension" of "operations" was caused by loss or damage other than "fungus", wet or dry rot or bacteria but remediation of "fungus", wet or dry rot or bacteria prolongs the "period of restoration", we will pay for loss and/or expense sustained during the delay (regardless of when such a delay occurs during the "period of restoration"), but such coverage is limited to 30 days. The days need not be consecutive.

## **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.

### **2. Water Damage, Other Liquids, Powder Or Molten Material Damage**

If loss or damage caused by or resulting from covered water or other liquid, powder or molten material damage loss occurs, we will also pay the cost to tear out and replace any part of the building or structure to repair damage to the system or appliance from which the water or other substance escapes. This Coverage Extension does not increase the Limit of Insurance.



### 3. Glass

- a. We will pay for expenses incurred to put up temporary plates or board up openings if repair or replacement of damaged glass is delayed.
- b. We will pay for expenses incurred to remove or replace obstructions when repairing or replacing glass that is part of a building. This does not include removing or replacing window displays.

This Coverage Extension **F.3.** does not increase the Limit of Insurance.

### G. Definitions

1. "Fungus" means any type or form of fungus, including mold or mildew, and any mycotoxins, spores, scents or by-products produced or released by fungi.
2. "Specified causes of loss" means the following:
  - 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.
  - c. Water damage means:
    - (1) Accidental discharge or leakage of water or steam as the direct result of the breaking apart or cracking of a plumbing, heating, air conditioning or other system or appliance (other than a sump system including its related equipment and parts), that is located on the described premises and contains water or steam; and

- (2) Accidental discharge or leakage of water or waterborne material as the direct result of the breaking apart or cracking of a water or sewer pipe caused by wear and tear, when the pipe is located off the described premises and is connected to or is part of a potable water supply system or sanitary sewer system operated by a public or private utility service provider pursuant to authority granted by the state or governmental subdivision where the described premises are located.

But water damage does not include loss or damage otherwise excluded under the terms of the Water Exclusion. Therefore, for example, there is no coverage under this policy in the situation in which discharge or leakage of water results from the breaking apart or cracking of a pipe which was caused by or related to weather-induced flooding, even if wear and tear contributed to the breakage or cracking. As another example, and also in accordance with the terms of the Water Exclusion, there is no coverage for loss or damage caused by or related to weather-induced flooding which follows or is exacerbated by pipe breakage or cracking attributable to wear and tear.

To the extent that accidental discharge or leakage of water falls within the criteria set forth in **c.(1)** or **c.(2)** of this definition of "specified causes of loss," such water is not subject to the provisions of the Water Exclusion which preclude coverage for surface water or water under the surface of the ground.

**THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.**

## ORDINANCE OR LAW COVERAGE

This endorsement modifies insurance provided under the following:

BUILDING AND PERSONAL PROPERTY COVERAGE FORM  
CONDOMINIUM ASSOCIATION COVERAGE FORM  
STANDARD PROPERTY POLICY

### SCHEDULE

Building Number/ Premises Number	Coverage A	Coverage B Limit Of Insurance	Coverage C Limit Of Insurance	Coverages B And C Combined Limit Of Insurance
/	<input type="checkbox"/>	\$	\$	\$ *
/	<input type="checkbox"/>	\$	\$	\$ *
/	<input type="checkbox"/>	\$	\$	\$ *

**Post-Loss Ordinance Or Law Option:** Yes ☐ No ☐

\*Do **not** enter a Combined Limit of Insurance if individual Limits of Insurance are selected for Coverages **B** and **C**, or if one of these Coverages is not applicable.

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

**A. Each Coverage – Coverage A, Coverage B and Coverage C – is provided under this endorsement only if that Coverage(s) is chosen by entry in the above Schedule and then only with respect to the building identified for that Coverage(s) in the Schedule.**

**B. Application Of Coverage(s)**

The Coverage(s) provided by this endorsement applies with respect to an ordinance or law that regulates the demolition, construction or repair of buildings, or establishes zoning or land use requirements at the described premises, subject to the following:

1. The requirements of the ordinance or law are in force at the time of loss. But if the Post-Loss Ordinance Or Law Option is indicated in the Schedule as being applicable, then Paragraph **B.2.** applies instead of this Paragraph **B.1.**

2. The requirements of the ordinance or law are in force at the time of loss; or the ordinance or law is promulgated or revised after the loss but prior to commencement of reconstruction or repair and provided that such ordinance or law requires compliance as a condition precedent to obtaining a building permit or certificate of occupancy.

3. Coverage under this endorsement applies only in response to the minimum requirements of the ordinance or law. Losses and costs incurred in complying with recommended actions or standards that exceed actual requirements are not covered under this endorsement.

4. Coverage under this endorsement applies only if:

- a. The building sustains only direct physical damage that is covered under this policy and as a result of such damage, you are required to comply with the ordinance or law; or
- b. The building sustains both direct physical damage that is covered under this policy and direct physical damage that is not covered under this policy, and as a result of the building damage in its entirety, you are required to comply with the ordinance or law.

However, there is no coverage under this endorsement if the building sustains direct physical damage that is not covered under this policy, and such damage is the subject of the ordinance or law, even if the building has also sustained covered direct physical damage.

5. If coverage applies under this endorsement based on the terms of Paragraph **B.4.b.**, we will not pay the full amount of loss otherwise payable under the terms of Coverages **A**, **B**, and/or **C** of this endorsement. Instead, we will pay a proportion of such loss, meaning the proportion that the covered direct physical damage bears to the total direct physical damage.

(Paragraph **F.** of this endorsement provides an example of this procedure.)

However, if the covered direct physical damage, alone, would have resulted in a requirement to comply with the ordinance or law, then we will pay the full amount of loss otherwise payable under the terms of Coverages **A**, **B** and/or **C** of this endorsement.

6. We will not pay under this endorsement for:

- a. Enforcement of or compliance with any ordinance or law which requires the demolition, repair, replacement, reconstruction, remodeling or remediation of property due to contamination by "pollutants" or due to the presence, growth, proliferation, spread or any activity of "fungus", wet or dry rot or bacteria; or
- b. The costs associated with the enforcement of or compliance with any ordinance or law which requires any insured or others to test for, monitor, clean up, remove, contain, treat, detoxify or neutralize, or in any way respond to, or assess the effects of "pollutants", "fungus", wet or dry rot or bacteria.

7. We will not pay under this endorsement for any loss in value or any cost incurred due to an ordinance or law that you were required to comply with before the time of the current loss, even in the absence of building damage, if you failed to comply.

### C. Coverage

#### 1. Coverage A – Coverage For Loss To The Undamaged Portion Of The Building

With respect to the building that has sustained covered direct physical damage, we will pay under Coverage **A** for the loss in value of the undamaged portion of the building as a consequence of a requirement to comply with an ordinance or law that requires demolition of undamaged parts of the same building.

Coverage **A** is included within the Limit Of Insurance applicable to such building as shown in the Declarations or addressed elsewhere in this policy. Coverage **A** does not increase the Limit of Insurance.

#### 2. Coverage B – Demolition Cost Coverage

With respect to the building that has sustained covered direct physical damage, we will pay the cost to demolish and clear the site of undamaged parts of the same building as a consequence of a requirement to comply with an ordinance or law that requires demolition of such undamaged property.

The Coinsurance Additional Condition does not apply to Demolition Cost Coverage.

#### 3. Coverage C – Increased Cost Of Construction Coverage

- a. With respect to the building that has sustained covered direct physical damage, we will pay the increased cost to:

- (1) Repair or reconstruct damaged portions of that building; and/or
- (2) Reconstruct or remodel undamaged portions of that building, whether or not demolition is required;

when the increased cost is a consequence of a requirement to comply with the minimum standards of the ordinance or law.

However:

- (1) This coverage applies only if the restored or remodeled property is intended for similar occupancy as the current property, unless such occupancy is not permitted by zoning or land use ordinance or law.

- (2) We will not pay for the increased cost of construction if the building is not repaired, reconstructed or remodeled.

The Coinsurance Additional Condition does not apply to Increased Cost of Construction Coverage.

- b. When a building is damaged or destroyed and Coverage **C** applies to that building in accordance with Paragraph **C.3.a.** above, coverage for the increased cost of construction also applies to repair or reconstruction of the following, subject to the same conditions stated in Paragraph **C.3.a.**:

- (1) The cost of excavations, grading, backfilling and filling;
- (2) Foundation of the building;
- (3) Pilings; and
- (4) Underground pipes, flues and drains.

The items listed in **b.(1)** through **b.(4)** above are deleted from Property Not Covered, but only with respect to the coverage described in this provision, **3.b.**

#### **D. Loss Payment**

1. All following loss payment provisions, **D.2.** through **D.5.**, are subject to the apportionment procedures set forth in Paragraph **B.5.** of this endorsement.
2. When there is a loss in value of an undamaged portion of a building to which Coverage **A** applies, the loss payment for that building, including damaged and undamaged portions, will be determined as follows:
  - a. If the Replacement Cost Coverage Option applies and such building is being repaired or replaced, on the same or another premises, we will not pay more than the lesser of:
    - (1) The amount you would actually spend to repair, rebuild or reconstruct such building, but not for more than the amount it would cost to restore the building on the same premises and to the same height, floor area, style and comparable quality of the original property insured; or

- (2) The Limit Of Insurance applicable to such building as shown in the Declarations or addressed elsewhere in this policy. (If this policy is endorsed to cover Earthquake and/or Flood as a Covered Cause of Loss, the Limit of Insurance applicable to the building in the event of damage by such Covered Cause of Loss may be lower than the Limit of Insurance that otherwise would apply.)

- b. If the Replacement Cost Coverage Option applies and such building is **not** repaired or replaced, or if the Replacement Cost Coverage Option does **not** apply, we will not pay more than the lesser of:

- (1) The actual cash value of such building at the time of loss; or
- (2) The Limit Of Insurance applicable to such building as shown in the Declarations or addressed elsewhere in this policy. (If this policy is endorsed to cover Earthquake and/or Flood as a Covered Cause of Loss, the Limit of Insurance applicable to the building in the event of damage by such Covered Cause of Loss may be lower than the Limit of Insurance that otherwise would apply.)

3. Unless Paragraph **D.5.** applies, loss payment under Coverage **B** – Demolition Cost Coverage will be determined as follows:

We will not pay more than the lesser of the following:

- a. The amount you actually spend to demolish and clear the site of the described premises; or
- b. The applicable Limit Of Insurance shown for Coverage **B** in the Schedule.

4. Unless Paragraph **D.5.** applies, loss payment under Coverage **C** – Increased Cost Of Construction Coverage will be determined as follows:

a. We will not pay under Coverage **C**:

- (1) Until the building is actually repaired or replaced, at the same or another premises; and
- (2) Unless the repair or replacement is made as soon as reasonably possible after the loss or damage, not to exceed two years. We may extend this period in writing during the two years.

b. If the building is repaired or replaced at the same premises, or if you elect to rebuild at another premises, the most we will pay under Coverage **C** is the lesser of:

- (1) The increased cost of construction at the same premises; or
- (2) The applicable Limit Of Insurance shown for Coverage **C** in the Schedule.

c. If the ordinance or law requires relocation to another premises, the most we will pay under Coverage **C** is the lesser of:

- (1) The increased cost of construction at the new premises; or
- (2) The applicable Limit Of Insurance shown for Coverage **C** in the Schedule.

5. If a Combined Limit Of Insurance is shown for Coverages **B** and **C** in the Schedule, Paragraphs **D.3.** and **D.4.** do not apply with respect to the building that is subject to the Combined Limit, and the following loss payment provisions apply instead:

The most we will pay, for the total of all covered losses for Demolition Cost and Increased Cost of Construction, is the Combined Limit Of Insurance shown for Coverages **B** and **C** in the Schedule. Subject to this Combined Limit of Insurance, the following loss payment provisions apply:

a. For Demolition Cost, we will not pay more than the amount you actually spend to demolish and clear the site of the described premises.

b. With respect to the Increased Cost of Construction:

- (1) We will not pay for the increased cost of construction:
  - (a) Until the building is actually repaired or replaced, at the same or another premises; and

(b) Unless the repair or replacement is made as soon as reasonably possible after the loss or damage, not to exceed two years. We may extend this period in writing during the two years.

(2) If the building is repaired or replaced at the same premises, or if you elect to rebuild at another premises, the most we will pay for the increased cost of construction is the increased cost of construction at the same premises.

(3) If the ordinance or law requires relocation to another premises, the most we will pay for the increased cost of construction is the increased cost of construction at the new premises.

E. The terms of this endorsement apply separately to each building to which this endorsement applies.

F. Example of proportionate loss payment for Ordinance Or Law Coverage Losses (procedure as set forth in Paragraph **B.5.**).

Assume:

- Wind is a Covered Cause of Loss; Flood is an excluded Cause of Loss
- The building has a value of \$200,000
- Total direct physical damage to building: \$100,000
- The ordinance or law in this jurisdiction is enforced when building damage equals or exceeds 50% of the building's value
- Portion of direct physical damage that is covered (caused by wind): \$30,000
- Portion of direct physical damage that is not covered (caused by flood): \$70,000
- Loss under Ordinance Or Law Coverage **C** of this endorsement: \$60,000

**Step 1:** Determine the proportion that the covered direct physical damage bears to the total direct physical damage.

$$\$30,000 \div \$100,000 = .30$$

**Step 2:** Apply that proportion to the Ordinance or Law loss.

$$\$60,000 \times .30 = \$18,000$$

In this example, the most we will pay under this endorsement for the Coverage **C** loss is \$18,000, subject to the applicable Limit of Insurance and any other applicable provisions.

**Note:** The same procedure applies to losses under Coverages **A** and **B** of this endorsement.

**G.** The following definition is added:

"Fungus" means any type or form of fungus, including mold or mildew, and any mycotoxins, spores, scents or by-products produced or released by fungi.

SAMPLE

**THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.**

## **EXCLUSION OF LOSS DUE TO VIRUS OR BACTERIA**

2

This endorsement modifies insurance provided under the following:

### **COMMERCIAL PROPERTY COVERAGE PART STANDARD PROPERTY POLICY**

- A.** The exclusion set forth in Paragraph **B.** applies to all coverage under all forms and endorsements that comprise this Coverage Part or Policy, including but not limited to forms or endorsements that cover property damage to buildings or personal property and forms or endorsements that cover business income, extra expense or action of civil authority.
- B.** We will not pay for loss or damage caused by or resulting from any virus, bacterium or other micro-organism that induces or is capable of inducing physical distress, illness or disease.
- However, this exclusion does not apply to loss or damage caused by or resulting from "fungus", wet rot or dry rot. Such loss or damage is addressed in a separate exclusion in this Coverage Part or Policy.
- C.** With respect to any loss or damage subject to the exclusion in Paragraph **B.**, such exclusion supersedes any exclusion relating to "pollutants".
- D.** The following provisions in this Coverage Part or Policy are hereby amended to remove reference to bacteria:
1. Exclusion of "Fungus", Wet Rot, Dry Rot And Bacteria; and
  2. Additional Coverage – Limited Coverage for "Fungus", Wet Rot, Dry Rot And Bacteria, including any endorsement increasing the scope or amount of coverage.
- E.** The terms of the exclusion in Paragraph **B.**, or the inapplicability of this exclusion to a particular loss, do not serve to create coverage for any loss that would otherwise be excluded under this Coverage Part or Policy.







# The Society of Certified Insurance Counselors

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## Section 3

# TIME ELEMENT COVERAGES & ENDORSEMENTS



## Time Element Coverages & Endorsements

3

### Section Goal

In this section, participants will analyze selected Time Element Coverage Forms to determine how and when coverage applies and how coverage may be modified.

### Learning Objectives

1. Using knowledge of Business Income (And Extra Expense) Coverage Form including the key definitions, the participant will describe the elements needed to trigger the business income and extra expense coverage, and endorsements, if any, that may be used to modify coverage.
2. Using knowledge of the Business Income (And Extra Expense) Coverage Form including:
  - Covered Causes Of Loss, Exclusions, And Limitations
  - Additional Limitation – Interruption Of Computer Operationsthe participant will be able to identify and describe available endorsements to provide coverage for causes of loss that would otherwise be excluded or limited.
3. Using knowledge of the Business Income (And Extra Expense) Coverage Form's four Additional Coverages, and the Coverage Extension for Newly Acquired Locations, the participant will be able to explain how coverage applies in the event of a loss, and the endorsements available to modify coverage.

4. Using knowledge of the four Loss Conditions in the Business Income (And Extra Expense) Coverage Form, the participant will describe how these conditions apply to the amount of loss payment and identify the endorsements that may be used to modify coverage.
5. Using knowledge of the Additional Condition on Coinsurance in the Business Income (And Extra Expense) Coverage Form, the participant will explain the Coinsurance formula, including the factors that should be used to determine the appropriate limit of insurance, Coinsurance percentage, and methods used to avoid Coinsurance.
6. Using knowledge of the four Optional Coverages in the Business Income (And Extra Expense) Coverage Form, the participant will determine how claims are settled.
7. Using knowledge of the Business Income (Without Extra Expense) Coverage Form, the participant will describe how extra expenses are paid to reduce loss under this form compared to the Business Income (And Extra Expense) Coverage Form.
8. Using knowledge of the Extra Expense Coverage Form, including the definition of period of restoration, the participant will determine the amount paid for extra expense under this form and the endorsements that may be used to modify coverage.
9. Using knowledge of the Leasehold Interest Coverage Form, the participant will describe the four Covered Leasehold Interests and how coverage is triggered.

### Why is it called “Time Element” coverage?

- A property insurance term referring to coverage where the measurement of loss is tied to a period of time

### What is the purpose of and need for business income coverage?

1. To do for the business what the business would have done for itself had no loss occurred
  - Provide funds to replace the business’s lost Net Income and pay the expenses of the business that continue, even though the business is shut down, for the time it should take the business to be restored to operations
  - It is “disability income protection” for the business
2. Needed by every business
  - Loss of income/additional expenses incurred by businesses as a result of direct damage to the insured property can have a devastating effect on businesses
3. Failure to address this exposure may lead to a significant errors and omissions exposure for insurance agents

### **Why is the coverage not widely sold?**

1. Hard to visualize financial impact
  - Easy to visualize building and personal property losses but not so with time element losses
2. Difficult to understand
  - Coverage forms are hard to comprehend
  - How much is needed
3. Not required by lending institutions – but changing and depends on the status of the economy
  - Depends on whether lenders want to recover principal or interest
4. Difficult to gather financial information
  - Financial statements may be closely guarded, and business owners may be reluctant to share them with an insurance agent
5. Perceived lack of benefit compared to cost
  - With limited budget business owners may see value in other insurance products

### **Financial Elements of a Business Income Loss**

1. Gross revenue
2. Operating expenses, broken down by
  - Those expenses that continue
  - Those expenses that do not continue
3. Net profit (or loss)

### **The Time Element Insurance design**

- Designed to protect the portion of the financial statement called the income statement or profit and loss statement
- You don't need to be a professional accountant to understand the information we deal with in insurance

## Some basics about the Income Statement

1. Start with Gross Sales
2. Subtract out the Cost of the Goods sold
3. Result is Gross Profit
4. Next subtract out the Operating Expenses (the expenses incurred by the business to generate the sales, except the cost of the goods)
5. The result is the Net Profit (also sometimes called Earnings Before Interest and Taxes – EBIT)

<i>ABC Sales and Service Income Statement 12 months ended December 31, 20XX</i>	
<i>Gross Sales</i>	<i>\$1,300,000</i>
<i>Less returns and allowances</i>	<i><u>\$100,000</u></i>
<i>Net Sales</i>	<i>\$1,200,000</i>
<i>Cost of goods sold (including handling and packaging)</i>	<i><u>\$600,000</u></i>
<i>Gross Profit</i>	<i>\$600,000</i>
<i>Operating expenses</i>	
<i>Salaries Owner</i>	<i>\$100,000</i>
<i>Salaries Other</i>	<i>\$120,000</i>
<i>Automobiles</i>	<i>\$10,000</i>
<i>Maintenance</i>	<i>\$5,000</i>
<i>Professional Fees</i>	<i>\$5,000</i>
<i>Insurance</i>	<i>\$20,000</i>
<i>Utilities</i>	<i>\$10,000</i>
<i>Rent</i>	<i><u>\$80,000</u></i>
<i>Total Operating Expenses</i>	<i><u>\$350,000</u></i>
<b>Net Profit (pre-tax)</b>	<b>\$250,000</b>



## Four ISO Time Element Coverage Forms

1. **Business Income (And Extra Expense) Coverage Form CP 00 30 10 12**
  - Most frequently used form
  - Provides reimbursement for both lost income and Extra Expenses incurred
  
2. **Business Income (Without Extra Expense) Coverage Form CP 00 32 10 12**
  - Same Business Income Coverage as **CP 00 30 10 12** but without Extra Expense
  - Should only be used for those businesses that cannot possibly have any Extra Expenses following a loss
  
3. **Extra Expense Coverage Form CP 00 50 10 12**
  - Provides coverage for only Extra Expenses incurred
  - Applies to businesses that cannot afford to be closed if a covered loss occurs
  
4. **Leasehold Interest Coverage Form CP 00 60 06 95**
  - Applies to a tenant who has an attractive lease situation
  - Provides protection for lost financial interest in canceled term of lease

## Seven other methods of providing Business Income Coverage

1. Builders Risk Policies
  - Can be endorsed to provide time element coverage
2. Businessowners Policies (BOP)
  - Provides broad time element coverages without dollar limitation
3. Business Auto Policies
  - Can be endorsed to provide time element coverage
4. Contractors Equipment Policies
  - Can be endorsed to provide time element coverage
5. Equipment Breakdown Policies
  - Can be endorsed to provide time element coverage
6. Electronic Data Processing (EDP) Policies
  - May include time element coverage
7. Differences In Conditions (DIC) Policies
  - May provide time element coverage when not provided by primary policies

## Business Income and Extra Expense Coverage

### Business Income

3

In this section we will analyze the Business Income Coverage provided in the **Business Income (And Extra Expense) Coverage Form CP 00 30 10 12**.

#### Learning Objective 1:

Using knowledge of Business Income (And Extra Expense) Coverage Form including the key definitions, the participant will describe the elements needed to trigger the business income and extra expense coverage, and endorsements, if any, that may be used to modify coverage.

#### 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.

...

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**Business Income means:** Net Income (Net Profit or Loss before income taxes) that would have been earned or incurred; and Continuing normal operating expenses incurred, including payroll.

#### NICE

Net Income (Net Profit or Loss before income taxes) that would have been earned or incurred; and Continuing normal operating Expenses incurred, including payroll

#### Note:

Named insured may recover even if business would have incurred a net loss – will pay for continuing normal operating expenses to the extent these expenses would have been earned

## Examples

The following shows an overview of two different businesses, one with a profit and the other with a loss.

	Net Profit (Loss)	Plus	Continuing Normal Operating Expenses	Equals	Business Income Loss Payment
Business #1	\$100,000	+	\$50,000	=	\$150,000
Business #2	(\$10,000)	+	\$50,000	=	\$40,000

The following are three examples that provide more detail.

**Note:** Income and expenses may vary by specific loss.

---

### Example 1

#### Business Income Loss for 30 days

Net Income \$12,233 Profit

Normal continuing operating expenses incurred

Payroll	\$ 5,801
Rent payment	\$ 1,204
Insurance premium	\$ 932
Lease payments (equipment)	\$ 847
Utilities (limited service)	<u>\$ 514</u>
Expenses subtotal	\$ 9,298

Business Income Loss \$ 21,531 Paid

\$12,233 Net Income profit plus \$9,298 continuing expenses = \$21,531

## Example 2

### Business Income Loss for 30 days

Net Income (\$ 2,233) Loss

#### Normal continuing operating expenses incurred

Payroll	\$ 5,801
Rent payment	\$ 1,204
Insurance premium	\$ 932
Lease payments (equipment)	\$ 847
Utilities (limited service)	<u>\$ 514</u>
Expenses Subtotal	\$ 9,298

Business Income Loss \$ 7,065 Paid

\$2,233 Net Income loss plus \$9,298 continuing expenses = \$7,065

## Example 3

### Business Income Loss for 30 days

Net Income (\$ 12,233) Loss

#### Normal continuing operating expenses incurred

Payroll	\$ 5,801
Rent payment	\$ 1,204
Insurance premium	\$ 932
Lease payments (equipment)	\$ 847
Utilities (limited service)	<u>\$ 514</u>
Expenses Subtotal	\$ 9,298

Business Income Loss \$ 0 Paid

\$12,233 Net Income loss plus \$9,298 continuing expenses = (\$2,935), so therefore nothing is paid

**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.

...

**Manufacturing risks Net Income** is based on the net sales value of production

- The net sales from products that would have been produced *only* during the period of shut down
- Does not include anything already produced and stockpiled (finished goods)
- Does not include the time to replace finished goods
- Need to attach **Manufacturers Selling Price Endorsement (Finished Stock Only)**  
**CP 99 30 06 95**

**Three available coverage options**

Named insured has flexibility to select different types of coverages for which a limit is shown in the Declarations

- (1) Business Income Including "Rental Value"
- (2) Business Income Other Than "Rental Value"
  - Actually exclusionary – no "Rental Value" provided
- (3) "Rental Value"
  - Actually exclusionary – no Business Income, other than "Rental Value"

**F. Definitions**

5. "Rental Value" means Business Income that consists of:
- a. Net Income (Net Profit or Loss before income taxes) that would have been earned or incurred as rental income from tenant occupancy of the premises described in the Declarations as furnished and equipped by you, including fair rental value of any portion of the described premises which is occupied by you; and
  - b. Continuing normal operating expenses incurred in connection with that premises, including:
    - (1) Payroll; and
    - (2) The amount of charges which are the legal obligation of the tenant(s) but would otherwise be your obligations.

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**"Rental Value"** is a defined term

Includes the named insured's rental income

- Received from tenants
  - Including fair rental value of portions occupied by the insured
- But also includes:
  - Obligations (by contract) of the tenant, e.g., taxes, insurance, utilities that must be assumed by the landlord
  - Cost of renting equivalent temporary replacement quarters when named insured is occupying a portion of the premises

## A.Coverage

### 1. Business Income

...

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.

CP 00 30 10 12

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## Business Income Insuring Agreement

- Contains the insurer's promise to pay
- Several requirements for coverage to apply
  1. Actual loss sustained – not a valued policy
    - Simply means the named insured must prove their loss for the company to pay
  2. Necessary "suspension" of "operations"
    - Both are defined terms in the policy
  3. Must be caused during the "period of restoration"
    - Limited in time
    - "Period of restoration" is defined in the policy

Let's look at some other key definitions before continuing further analysis of the insuring agreement



**F. Definitions**

**6. "Suspension" means:**

- a. The slowdown or cessation of your business activities; or
- b. That a part or all of the described premises is rendered untenable, if coverage for Business Income Including "Rental Value" or "Rental Value" applies.

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**"Suspension" is a defined term**

a. **"Operations" do not have to cease entirely**

- Slowdown also qualifies – operating at some level
- Means the named insured's business activities – what the insured does such as manufacturing, sales, service, etc.

b. **Described premises can't be occupied**

- Special provision for "Rental Value"

**F. Definitions**

**2. "Operations" means:**

- a. Your business activities occurring at the described premises; and
- b. The tenantability of the described premises, if coverage for Business Income Including "Rental Value" or "Rental Value" applies.

CP 00 30 10 12

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**"Operations" is a defined term**

a. **Named insured's business activities at the described premises**

b. **Can the premises be occupied for its intended purpose (Tenantability)?**

- Special provision for "Rental Value"

**F. Definitions**

3. "Period of restoration" means the period of time that:

a. Begins:

(1) 72 hours after the time of direct physical loss or damage for Business Income Coverage;  
or

(2) Immediately after the time of direct physical loss or damage for Extra Expense Coverage;

caused by or resulting from any Covered Cause of Loss at the described premises; and

b. Ends on the earlier of:

(1) The date when the property at the described premises should be repaired, rebuilt or replaced with reasonable speed and similar quality; or

(2) The date when business is resumed at a new permanent location.

**"Period of restoration" is a defined term**

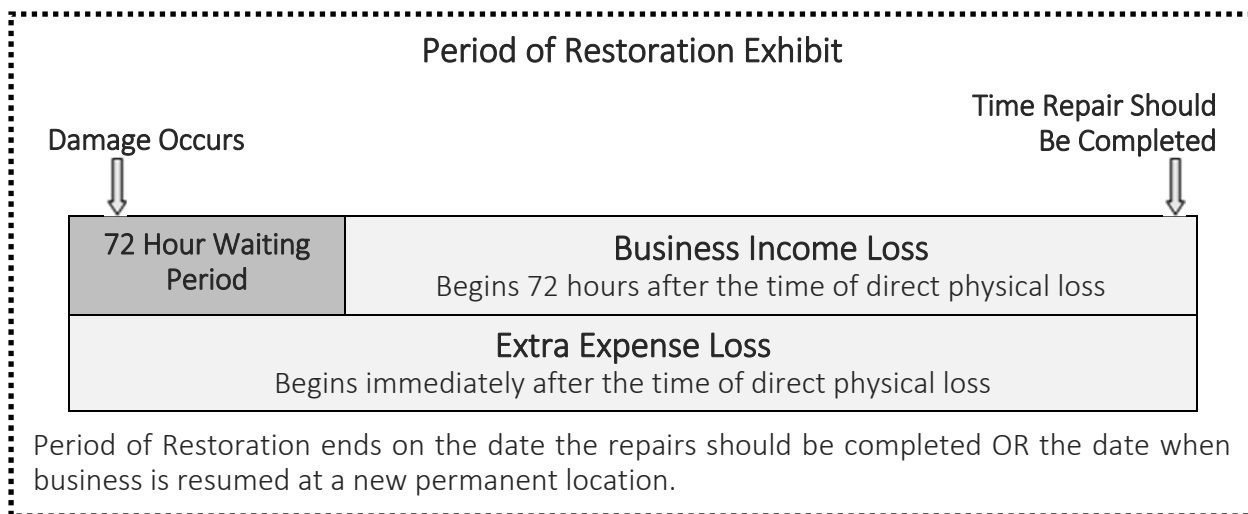
1. The period of restoration for Business Income Coverage begins 72 hours after the time of direct physical loss or damage caused by or resulting from a Covered Cause of Loss at the described premises
2. The period of restoration for Extra Expense Coverage begins immediately after the time of direct physical loss or damage caused by or resulting from a Covered Cause of Loss at the described premises
3. The period of restoration ends on the date when the property at the described premises should be repaired, rebuilt or replaced with like kind and quality and using reasonable speed

**OR**

Ends on the date when the insured's operations resume at a new permanent location

**Note:**

Expiration date of the Policy has no effect on the period of restoration. The policy in force at the time loss is triggered pays for the entire period of restoration.



**Business Income Changes – Beginning Of The Period Of Restoration CP 15 56 06 07**

- Allows the waiting period for business income to be reduced from 72 hours to 24 hours or eliminated completely

*Period of Restoration Definition (cont.)*

...

"Period of restoration" does not include any increased period required due to the enforcement of or compliance with any ordinance or law that:

- (1) Regulates the construction, use or repair, or requires the tearing down, of any property; or
- (2) Requires any insured or others to test for, monitor, clean up, remove, contain, treat, detoxify or neutralize, or in any way respond to, or assess the effects of "pollutants".

The expiration date of this policy will not cut short the "period of restoration".

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

**HOWEVER, the definition of period of restoration does NOT include:**

- Extra time due to enforcement of any ordinance or law involving demolition or construction of any property
- Extra time due to enforcement of any ordinance or law involving cleanup and/or removal of pollutants; pollutants are defined

**F. Definitions**

**4.** "Pollutants" means any solid, liquid, gaseous or thermal irritant or contaminant, including smoke, vapor, soot, fumes, acids, alkalis, chemicals and waste. Waste includes materials to be recycled, reconditioned or reclaimed.

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<b>ORDINANCE OR LAW – INCREASED PERIOD OF RESTORATION SCHEDULE</b>	
Described Premises:	
Post-Loss Ordinance Or Law Option:	Yes <input type="checkbox"/> No <input type="checkbox"/>
Information required to complete this Schedule, if not shown above, will be shown in the Declarations.	
CP 15 31 09 17	© Insurance Services Office, Inc. 2016
Page 1 of 1	

**Ordinance Or Law – Increased Period Of Restoration CP 15 31 09 17**

- This endorsement is used to extend the “period of restoration”
- Includes additional time required to repair or rebuild damaged property in accordance with the requirement to comply with or the enforcement of codes that are in force at the time of loss
- Endorsement also includes a Post-Loss Ordinance Or Law Option. If selected, coverage applies to codes that are revised after the loss but prior to the start of reconstruction or repair provided that compliance is required to obtain a building permit or certificate of occupancy
- Limits must be sufficient to cover the additional time provided by the endorsement

**Note:**

This endorsement does not provide for additional time needed to test for or otherwise assess or remediate the presence or effects of “pollutants”, “fungus”, wet rot, dry rot or bacteria

## Back to the analysis of the Insuring Agreement

### Insuring Agreement - continued

3

#### A. Coverage

##### 1. Business Income

...

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.

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- Suspension must be caused by direct physical loss of or damage to property at the premises described in the Declarations
  - Loss or damage to property includes personal property in the open or in a vehicle within 100 feet of the described premises.
- The premises described in the Declarations is intended to be where the named insured's own operations take place
- Notice there is NO REQUIREMENT for the following:
  - That the damaged property be Covered Property as is required under the BPPCF
  - That the damaged property be property of the insured
  - That the direct damage and the loss of income be incurred at the same location
  - That the loss of income has to take place at a scheduled location

**A. Coverage**

**1. Business Income**

...

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.

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- There IS a requirement that the property suffering direct physical loss or damage that necessitates the “suspension” of “operations” must be at the premises described in the Declarations
  - If the named insured occupies only part of a building, the named insured’s premises includes:
    - (a) The portion rented, leased or occupied by the named insured;
    - (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);  
  
Example:  
A named insured tenant may have storage unit in an office building basement that is within 100 feet of the described premises
  - (c) Any area within the building at the described premises if that area is used to gain access to the portion of the building that the named insured tenant rents, leases or occupies

**Note:**

Damage to premises not described such as a supplier’s premises, a customer’s premises, etc., could cause the insured to suffer a loss of Business Income. This would not be covered.

Dependent properties exposures and the available endorsement will be discussed later.

## Recap

### Requirements needed to trigger Business Income Coverage

1. Actual loss of Business Income sustained
  - Prove how much is lost
2. Loss is due to a necessary “suspension” of “operations”
  - Slowdown or cessation is required due to the damage that impacts business activity or tenantability
3. Loss sustained is during the “period of restoration”
  - Time it should take to fully restore the business using due diligence and dispatch
4. Must be caused by direct physical loss to property
  - These losses are triggered by direct damage
5. Must be at the described premises shown in the Declaration
6. Must be from a Covered Cause of Loss
  - Refer to the Causes Of Loss Coverage Form

## Dependent Properties Exposure

The named insured has a potential loss exposure if the premises belonging to another business that the named insured is dependent on suffers damage. This is commonly referred to as a dependent property exposure.

1. Contributing locations

- Another business the insured relies on to provide goods or services to the insured

*Example:*

*A textile operation relies on a supplier for cotton thread*

2. Recipient locations

- Another business the insured relies on to purchase the insured's goods or services

*Example:*

*Insured factory produces raw plastic that is sold to a toy manufacturer*

3. Manufacturing locations

- Another business the insured relies on to make a product and provide it directly to the insured's customers

*Example:*

*Company operates out of a small office, and takes orders for a kitchen supplies manufacturer, who ships to the customer directly*

4. Leader locations

- Another business the insured relies on to attract customers to the insured's business

*Example:*

*A small store in a mall relies on the large department stores to attract the traffic that serves as their customer base*



## Endorsements – Business Income from Dependent Properties

### Business Income From Dependent Properties – Limited Form CP 15 09 10 12

Excerpt from CP 15 09 10 12

Schedule			
Name And Describe Occupancy And Location			Limit Of Insurance
Contributing Locations:			\$
Secondary Contributing Locations (Not Named):			
Recipient Locations:			\$
Secondary Recipient Locations (Not Named):			
Manufacturing Locations:			\$
Leader Locations:			\$
Information required to complete this Schedule, if not shown above, will be shown in the Declarations.			
CP 15 09 10 12		© Insurance Service Office, Inc. 2011	
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- Used to cover the insured's loss of income when a direct damage loss from a Covered COL occurs at the premises of another business the insured depends on
- Can be used with either of the Business Income coverage forms
- Used when insured is not insuring their own location; OR Used when insured wants different limits than they carry on their own location
- Has a separate Limit Of Insurance for the dependent properties shown for each scheduled location
- Limits shown on this endorsement are separate from any other Business Income limits that apply to direct damage at the insured premises
- Can include coverage for secondary contributing or secondary recipient locations
- No coverage is provided when the loss at any dependent property is caused by a loss to electronic data
- Does not include water, power, communication, internet or wastewater utilities or roads, bridges, tunnels, airfields, pipelines and other similar structures
- Applies to Contributing and Recipient Locations, whether primary or secondary

**Business Income From Dependent Properties – Broad Form CP 15 08 10 12**

Excerpt of CP 15 08 10 12

Schedule
Name And Describe Occupancy And Location
Contributing Locations:
Secondary Contributing Locations (Not Named): <input type="checkbox"/>
Recipient Locations:
Secondary Recipient Locations (Not Named): <input type="checkbox"/>
Manufacturing Locations:
Leader Locations:
Information required to complete this Schedule, if not shown above, will be shown in the Declarations.
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- Used to cover the insured's loss of income when a direct damage loss from a Covered Cause of Loss occurs at the premises of another business the insured depends on
- Can be used with either of the Business Income Coverage forms
- Used when insured is insuring their own premises
- Limit for the Described Premises applies separately to each dependent property, but does not increase the limit of insurance
- Uses the same Limit Of Insurance as the Business Income Coverage, which is listed in the Declarations
- Can include coverage for secondary contributing or secondary recipient locations
- No coverage is provided when the loss at any dependent property is caused by a loss to electronic data
- Does not include water, power, communication, internet or wastewater utilities or roads, bridges, tunnels, airfields, pipelines and other similar structures
  - Applies to Contributing and Recipient Locations, whether primary or secondary

**Business Income From Dependent Properties – Limited International Coverage**  
**CP 15 01 10 12**

Excerpt of CP 15 01 10 12

SCHEDULE	
Name And Describe Occupancy And Location	Limit Of Insurance
Contributing Locations:	\$
Secondary Contributing Locations (Not Named): <input type="checkbox"/>	
Manufacturing Locations:	\$
<p>The Applicable Causes Of Loss Form Is:</p> <p><input type="checkbox"/> Basic Form      <input type="checkbox"/> Broad Form      <input type="checkbox"/> Special Form</p> <p>Endorsements, if any, supplementing or restricting the Covered Causes of Loss with respect to the coverage provided under this endorsement:</p>	
Information required to complete this Schedule, if not shown above, will be shown in the Declarations.	
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- Expands Coverage Territory by eliminating that provision in the Commercial Property Conditions, as it relates to this endorsement
- Provides coverage for Contributing Locations and Manufacturing Locations
- No coverage for Recipient or Leader Locations

## Extra Expense

### A. Coverage

#### 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.
- (2) 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.

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- Coverage is included in the limit stated on the Declaration. It is not subject to a monthly limitation or a separate limit of insurance. Coinsurance provision does not apply to this coverage
- Note the word "necessary" as it means the incurred Extra Expenses must be absolutely essential to avoid or minimize a "suspension" of "operations"
- Some Extra Expenses are covered without regard to whether or not they reduce the Business Income loss
  - (1) Pays to avoid or minimize the "suspension" of business and to continue operations at the described premises or at replacement premises or temporary locations,
  - (2) Pays to minimize the "suspension" of business if the named insured cannot continue "operations" at the described premises or a replacement premises or temporary location.
- Some Extra Expenses are covered but only to the extent they reduce the Business Income loss or the Extra Expense loss
  - Sometimes referred to Expediting Extra Expenses
  - An example might be extraordinary freight charges



## Knowledge Check 1

3

1. Which of the following best describes business income?
  - a. Net income (Net Profit or Loss before income taxes) that would have been earned or incurred; and continuing normal operating expenses incurred, including payroll.
  - b. Net income (Net Profit after income taxes) that would have been earned or incurred; and continuing normal operating expenses incurred, including payroll.
  - c. Net income (Net Profit or Loss before income taxes) that would have been earned or incurred; and all operating expenses incurred, including payroll.
2. Indicate whether the following are true or false in regard to Period of Restoration.

	True	False
a. Business Income begins 72 hours after the time of direct physical loss or damage caused by or resulting from a Covered Cause of Loss at the described premises		
b. Extra Expense begins with the time of direct physical loss or damage caused by or resulting from a Covered Cause of Loss at the described premises		
c. Ends on the date when the property at the described premises should be repaired, rebuilt or replaced with like kind and quality and using reasonable speed		
d. Ends 45 days after the insured's operations resume at a new permanent location		
e. Expiration date of the Policy ends the "period of restoration"		

3. In each of the following examples, indicate which of the following types of dependent property exposures it represents:

	Contributing location	Recipient location	Manufacturing location	Leader location
a. The anchor tenant in the local mall where the named insureds store is located				
b. A company that provides key components that are used in the named insureds manufacturing process				
c. The company that purchases 75% of the named insureds products				
d. The company that produces and distributes items directly to the named insureds customers				

### **Learning Objective 2:**

Using knowledge of the Business Income (And Extra Expense) Coverage Form including:

- Covered Causes Of Loss, Exclusions, And Limitations
- Additional Limitation – Interruption Of Computer Operations

the participant will be able to identify and describe available endorsements to provide coverage for causes of loss that would otherwise be excluded or limited.

---

#### **3. Covered Causes Of Loss, Exclusions And Limitations**

See applicable Causes Of Loss form as shown in the Declarations.

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### **Covered Causes Of Loss**

- The applicable Causes Of Loss Form will be shown in the Declarations
- It is possible (perhaps not advisable) to have different Causes Of Loss apply to direct damage and time element coverages
- “Ordinary exclusions” apply to direct AND indirect loss exposures
  1. Ordinance Or Law, Earth Movement, Utility Services, Water, etc.
  2. Electrical arcing, steam boiler explosion, etc., apply

## Endorsements

- **Ordinance Or Law – Increased Period Of Restoration CP 15 31 09 17**
  - Extends the “period of restoration” to account for the impact of ordinances or laws compliance – see earlier discussion of this endorsement
- **Earthquake And Volcanic Eruption Endorsement CP 10 40 10 12**
- **Flood Coverage Endorsement CP 10 65 10 12**
  - Adds Flood to the Covered Causes Of Loss. Allows the Business Income form to respond to a flood loss, where this type of loss is excluded by the NFIP policy.
- **Utility Services – Time Element CP 15 45 09 17**
  - Extends coverage to apply to a “suspension” of “operations” due to the interruption of utility services caused by direct physical loss or damage by a Covered Cause Of Loss
  - Waiting Period options available
  - The endorsement defines utility services as follows:
    - Water Supply Property – Pumping Stations and Water Mains
    - Wastewater Removal Property – A utility service designed for removing wastewater and sewage from the described premises
    - Communication Supply Property – Meaning communication services that include telephone, radio, microwave or television services to the described premises. Must specify if coverage is needed for overhead transmission lines.
    - Power Supply Property – Properties that supply electricity, steam, or gas. Must specify if coverage is needed for overhead transmission lines.
- **Equipment Breakdown Cause Of Loss CP 10 46 10 12**
  - Endorsement modifies only the Causes Of Loss – Special Form to include “Breakdown” of “Covered Equipment” and will make the Business Income form respond to this type of loss.
  - Coverage can also be provided under a separate coverage part via the **Equipment Breakdown Protection Coverage Form EB 00 20 01 13**

## Special Exclusions

Each of the Causes Of Loss Forms have a paragraph regarding Special Exclusions that apply to specific Coverage Forms, including the Business Income (And Extra Expense) Coverage Form

### Causes of Loss – Special Form

#### B. EXCLUSIONS

##### 4. Special Exclusions

The following provisions apply only to the specified Coverage Forms:

a. **Business Income (And Extra Expense) Coverage Form, Business Income (Without Extra Expense) Coverage Form, Or Extra Expense Coverage Form**

We will not pay for:

(1) Any loss caused by or resulting from:

- (a) Damage or destruction of "finished stock"; or
- (b) The time required to reproduce "finished stock".

This exclusion does not apply to Extra Expense.

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(1) Will not pay for any loss caused by or resulting from:

(a) Damage or destruction of “finished stock”

- Excludes loss of income due to the damage or destruction of finished stock
- Since the goods are “finished” they are no longer part of the insured’s “operations” because their operations are manufacturing, not storage of finished goods
- Policy only pays for loss due to a “suspension” of “operations”
- **Manufacturers Selling Price (Finished “Stock” Only)**  
**CP 99 30 06 95**
  - Pays for loss to finished goods on a selling price basis, which includes profit – discussed under Commercial Property

(b) Time to reproduce “finished stock”

- Excludes loss due to the time it takes to make new finished goods
- The time to make the new goods falls outside the “period of restoration” as the operations have been restored
- The “period of restoration” will continue until the manufacturer is back at the same point in the process as they were prior to the loss



We will not pay for:

...

- (2) Any loss caused by or resulting from direct physical loss or damage to radio or television antennas (including satellite dishes) and their lead-in wiring, masts or towers.

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- (2) Will not pay for radio, TV antennas, & lead-in wiring, masts or towers

- **Radio Or Television Antennas-Business Income Or Extra Expense  
CP 15 50 10 12**

- Endorsement voids the exclusion thereby providing coverage for this type of property

We will not pay for:

...

- (3) Any increase of loss caused by or resulting from:

- (a) Delay in rebuilding, repairing or replacing the property or resuming "operations", due to interference at the location of the rebuilding, repair or replacement by strikers or other persons; or

...

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- (3) Will not pay for increase of loss caused by or resulting from:

- (a) Delay caused by strikers or other persons

- Occurrence of a strike may not be entirely outside the insured's control

We will not pay for:

...

(3) Any increase of loss caused by or resulting from: ...

- (b) Suspension, lapse or cancellation of any license, lease or contract. But if the suspension, lapse or cancellation is directly caused by the "suspension" of "operations", we will cover such loss that affects your Business Income during the "period of restoration" and any extension of the "period of restoration" in accordance with the terms of the Extended Business Income Additional Coverage and the Extended Period Of Indemnity Optional Coverage or any variation of these.

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(b) Suspension of license, lease or contract

- **Leasehold Interest Coverage Form CP 00 60 06 95**
  - Addresses the loss insured suffers from the loss of a favorable property lease – Discussed in detail later
- Cancellation of a contract may create a coverage gap
  - Future earnings that are lost due to loss of a contract after the “period of restoration”
  - This is the importance of using Extended Period Of Indemnity Optional Coverage to address this gap

We will not pay for:

...

- (4) Any Extra Expense caused by or resulting from suspension, lapse or cancellation of any license, lease or contract beyond the "period of restoration".

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- (4) Will not pay for any Extra Expense caused by or resulting from suspension, lapse or cancellation of any license, lease or contract beyond the "period of restoration"

- Policy only pays for Extra Expenses incurred because of the suspension, lapse or cancellation of any license, lease or contract DURING the "period of restoration"
- Does not apply BEYOND the "period of restoration"

We will not pay for:

...

- (5) Any other consequential loss.

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- (5) Will not for any other consequential loss

- Catch-all exclusion

*Example:*

*Penalties imposed for late delivery*

## BI & EE Coverage – Additional Limitation – Interruption of Computer Operations

### A. Coverage

#### 4. Additional Limitation – Interruption Of Computer Operations

- a. Coverage for Business Income does not apply when a "suspension" of "operations" is 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. 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.
- c. 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.
- d. 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.

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- Establishes that there is no coverage for Business Income (Paragraph a.) or Extra Expense (Paragraph b.) resulting from destruction or corruption of electronic data or from any other loss or damage to electronic data, except as provided in the Additional Coverage
  - Limitation only applies to electronic data as defined
- Provides a definition of electronic data
- Paragraph d. added to indicate 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
  - Exception provides coverage for losses caused by damage to electronic data for these specifically listed control systems

### Learning Objective 3:

Using knowledge of the Business Income (And Extra Expense) Coverage Form's four Additional Coverages, and the Coverage Extension for Newly Acquired Locations, the participant will be able to explain how coverage applies in the event of a loss, and the endorsements available to modify coverage.

There are four additional coverages in the **Business Income (And Extra Expense) Coverage Form CP 00 30**.

#### Additional Coverages

- a. Civil Authority
- b. Alterations And New Buildings
- c. Extended Business Income
- d. Interruption Of Computer Operations

## 5. Additional Coverages

### a. Civil Authority

In this Additional Coverage, Civil Authority, the described premises are premises to which this Coverage Form applies, as shown in the Declarations.

When a Covered Cause of Loss causes damage to property other than property at the described premises, we will pay for the actual loss of Business Income you sustain and necessary Extra Expense caused by action of civil authority that prohibits access to the described premises, provided that both of the following apply:

- (1) Access to the area immediately surrounding the damaged property is prohibited by civil authority as a result of the damage, and the described premises are within that area but are not more than one mile from the damaged property; and
- (2) The action of civil authority is taken in response to dangerous physical conditions resulting from the damage or continuation of the Covered Cause of Loss that caused the damage, or the action is taken to enable a civil authority to have unimpeded access to the damaged property.

Civil Authority Coverage for Business Income will begin 72 hours after the time of the first action of civil authority that prohibits access to the described premises and will apply for a period of up to four consecutive weeks from the date on which such coverage began.

Civil Authority Coverage for Extra Expense will begin immediately after the time of the first action of civil authority that prohibits access to the described premises and will end:

- (1) Four consecutive weeks after the date of that action; or
  - (2) When your Civil Authority Coverage for Business Income ends;
- whichever is later.

### a. Civil Authority

- Pays for actual loss of Business Income sustained and necessary Extra Expense caused by actions of the government that prohibit access to the described premises within one mile of the damaged property, AND
- Due to direct physical loss or damage to property NOT at the described premises, AND
- Damage at other premises must be from a Covered Cause of Loss under the insured's policy
- 72 hour waiting period deductible for Business Income
- No waiting period deductible for Extra Expense
- Four (4) continuous weeks of coverage

#### **Example:**

*A tornado sweeps through the downtown area of a city causing extensive damage. A number of high-rise buildings having glass exteriors are located in the affected area. The civil authority is concerned about the possibility of falling glass and shuts down the downtown area. The insured's premises did not suffer any damage but is located in this area that is shut down.*

*Additional Coverages (cont.)*

- **Civil Authority Changes CP 15 32 06 07**
  - Can be used with either of the Business Income Coverage forms or the Extra Expense Coverage form
  - Used to change the one-mile limitation and/or to add additional time beyond the four-week limitation
  
- **Business Income Changes – Beginning Of The Period Of Restoration CP 15 56 06 07**
  - Allows the waiting period for Business Income to be reduced to 24 hours OR to be eliminated

[illegible]



## 5. Additional Coverages

### b. Alterations And New Buildings

We will pay for the actual loss of Business Income you sustain and necessary Extra Expense you incur due to direct physical loss or damage at the described premises caused by or resulting from any Covered Cause of Loss to:

- (1) New buildings or structures, whether complete or under construction;
- (2) Alterations or additions to existing buildings or structures; and
- (3) Machinery, equipment, supplies or building materials located on or within 100 feet of the described premises and:
  - (a) Used in the construction, alterations or additions; or
  - (b) Incidental to the occupancy of new buildings.

If such direct physical loss or damage delays the start of "operations", the "period of restoration" for Business Income Coverage will begin on the date "operations" would have begun if the direct physical loss or damage had not occurred.

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### b. Alterations And New Buildings

- Coverage is at the Described Premises, not at Newly Acquired Locations
- Direct physical loss or damage at the described premises caused by or resulting from any Covered Cause of Loss to:
  - New buildings or structures, completed, under construction, or incidental to the occupancy of new buildings
- Establishes the loss of income to property “under construction” will be measured from the date operations would have begun had there been no loss

#### *Example:*

*A new building under construction, at the Described Premises, has a projected completion date of July 1st. As a result of direct damage from a windstorm that occurred on May 1st, the completion date was pushed back to November 1st. The “period of restoration” for this loss will begin on July 1st, the original expected completion date. The period will not begin on May 1st, the date the damage occurred. The “period of restoration” will continue until the repairs are completed and the insured can begin operations. The policy in force at the time of the direct damage will be the one that pays even if the policy expires before the “period of restoration” begins.*

**5. Additional Coverages**

**c. Extended Business Income**

**(1) Business Income Other Than "Rental Value"**

If the necessary "suspension" of your "operations" produces a Business Income loss payable under this policy, we will pay for the actual loss of Business Income you incur during the period that:

- (a)** Begins on the date property (except "finished stock") is actually repaired, rebuilt or replaced and "operations" are resumed; and
- (b)** Ends on the earlier of:
  - (i)** The date you could restore your "operations", with reasonable speed, to the level which would generate the Business Income amount that would have existed if no direct physical loss or damage had occurred; or
  - (ii)** 60 consecutive days after the date determined in **(1)(a)** above.

However, Extended Business Income does not apply to loss of Business Income incurred as a result of unfavorable business conditions caused by the impact of the Covered Cause of Loss in the area where the described premises are located.

Loss of Business Income must be caused by direct physical loss or damage at the described premises caused by or resulting from any Covered Cause of Loss.

**(2) "Rental Value" [...]**

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**c. Extended Business Income**

- (1)** Extends Business Income coverage and/or "Rental Value" for a period of time beyond the end of the "period of restoration"
  - (a)** Begins on the date property (except finished stock) is actually repaired, rebuilt or replaced AND operations are resumed for Business Income
  - (b)** Ends on the earlier of:
    - (i)** The date the insured could restore, with a reasonable effort, the level of income that would have existed if there had been no direct physical loss or damage; or
    - (ii)** 60 consecutive days after the date property (except finished stock) actually repaired, rebuilt or replaced AND operations are resumed

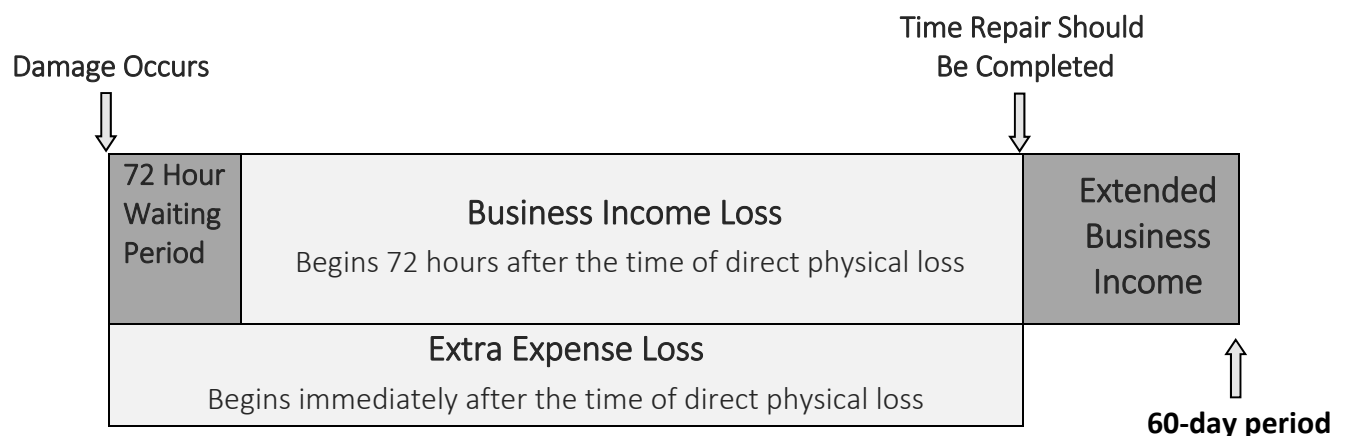
*Additional Coverages (cont.)*

- (2) Can be expanded under Optional Coverages on the Declarations for an additional period of time
  - (a) Can increase by 30-day increments up to a maximum of 730 days using Extended Period Of Indemnity
  - (b) Entry on Declarations should show total number of days for this coverage
- (3) Specifically excludes any loss due to a general downturn in the economy
  - This does not apply to loss of Business Income incurred as a result of unfavorable business conditions caused by the impact of the Covered Cause of Loss in the area where the described premises are located
- (4) Does NOT increase the Limit Of Insurance

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**“Period of Restoration” Exhibit**  
**(Including Extended Business Income)**



- Period of restoration begins 72 hours following a Direct Physical Loss at the Described Location and ends on the date the repairs should have been completed.
- Extended Business Income **begins after the repairs have been completed** and provides coverage for 60–days (or the number of days entered on the Declarations).
- **CAUTION!** This can cause a gap in coverage if the Business Income Payments stop before the repairs are completed

**d. Interruption Of Computer Operations**

**5. Additional Coverages**

**d. Interruption Of Computer Operations**

- (1) Under this Additional Coverage, electronic data has the meaning described under Additional Limitation – Interruption Of Computer Operations.
- (2) Subject to all provisions of this Additional Coverage, you may extend the insurance that applies to Business Income and Extra Expense to apply to a "suspension" of "operations" caused by an interruption in computer operations due to destruction or corruption of electronic data due to a Covered Cause of Loss. However, we will not provide coverage under this Additional Coverage when the Additional Limitation – Interruption Of Computer Operations does not apply based on Paragraph **A.4.d.** therein.
- (3) With respect to the coverage provided under this Additional Coverage, the Covered Causes of Loss are subject to the following:
  - (a) If the Causes Of Loss – Special Form applies, coverage under this Additional Coverage, Interruption Of Computer Operations, is limited to the "specified causes of loss" as defined in that form and Collapse as set forth in that form.
  - (b) If the Causes Of Loss – Broad Form applies, coverage under this Additional Coverage, Interruption Of Computer Operations, includes Collapse as set forth in that form.
  - (c) If the Causes Of Loss form is endorsed to add a Covered Cause of Loss, the additional Covered Cause of Loss does not apply to the coverage provided under this Additional Coverage, Interruption Of Computer Operations.
  - (d) The Covered Causes of Loss include a virus, harmful code or similar instruction introduced into or enacted on a computer system (including electronic data) or a network to which it is connected, designed to damage or destroy any part of the system or disrupt its normal operation. But there is no coverage for an interruption related to manipulation of a computer system (including electronic data) by any employee, including a temporary or leased employee, or by an entity retained by you or for you to inspect, design, install, maintain, repair or replace that system.

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- (1) Same meaning for electronic data as describe in Additional Limitation – Interruption Of Computer Operations
- (2) No coverage under this Additional Coverage when the Additional Limitation – Interruption Of Computer Operations does not apply – based on Paragraph **A.4.d.** of that Limitation
- (3) When Special Causes Of Loss applies – coverage is provided for:
  - “Specified causes of loss”
  - Collapse
  - Virus

Any other Causes Of Loss endorsed to the policy (earthquake for example) do NOT apply to this Additional Coverage

5. Additional Coverages

d. Interruption Of Computer Operations

...

- (4) The most we will pay under this Additional Coverage, Interruption Of Computer Operations, is \$2,500 (unless a higher limit is shown in the Declarations) for all loss sustained and expense incurred in any one policy year, regardless of the number of interruptions or the number of premises, locations or computer systems involved. If loss payment relating to the first interruption does not exhaust this amount, then the balance is available for loss or expense sustained or incurred as a result of subsequent interruptions in that policy year. A balance remaining at the end of a policy year does not increase the amount of insurance in the next policy year. With respect to any interruption which begins in one policy year and continues or results in additional loss or expense in a subsequent policy year(s), all loss and expense is deemed to be sustained or incurred in the policy year in which the interruption began.
- (5) This Additional Coverage, Interruption Of Computer Operations, does not apply to loss sustained or expense incurred after the end of the "period of restoration", even if the amount of insurance stated in (4) above has not been exhausted.

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- (4) Most paid is \$2,500 maximum – annual aggregate limit – unless a higher limit is shown in the Declarations
- (5) Amounts available are not available after the end of the “period of restoration”

**CAUTION!** Coverage for Computer Operations may be better provided by other coverage forms

## BI & EE Coverage – Coverage Extension

### 6. Coverage Extension

If a Coinsurance percentage of 50% or more is shown in the Declarations, you may extend the insurance provided by this Coverage Part as follows:

#### Newly Acquired Locations

- a. You may extend your Business Income and Extra Expense Coverages to apply to property at any location you acquire other than fairs or exhibitions.
- b. The most we will pay under this Extension, for the sum of Business Income loss and Extra Expense incurred, is \$100,000 at each location, unless a higher limit is shown in the Declarations.
- c. Insurance under this Extension for each newly acquired location will end when any of the following first occurs:
  - (1) This policy expires;
  - (2) 30 days expire after you acquire or begin to construct the property; or
  - (3) You report values to us.

We will charge you additional premium for values reported from the date you acquire the property.

The Additional Condition, Coinsurance, does not apply to this Extension.

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### Application of Coverage

- Applies if a Coinsurance percentage of 50% or more is shown in the Declarations
- Applies even if the named insured is NOT in compliance with the Coinsurance provision

## Newly Acquired Locations

- a. Extends coverage to Newly Acquired Locations, other than fairs or exhibitions
- b. Most paid is a maximum limit of \$100,000 at each location, unless a higher limit shown in the Declarations
  - Paid in addition to the limits of insurance
- c. Limited period of time – Designed to give the insured time to report the acquisition or arrange for other insurance

Coverage ends earliest of:

- (1) Policy expiration
- (2) 30 days after acquisition or the start of construction
- (3) Values are reported

Additional premium charged as of the beginning of the exposure

**Note:**

The Additional Condition – Coinsurance does not apply

## BI & EE Coverage – Limits Of Insurance

### B. Limits Of Insurance

The most we will pay for loss in any one occurrence is the applicable Limit Of Insurance shown in the Declarations.

Payments under the following coverages will not increase the applicable Limit of Insurance:

1. Alterations And New Buildings;
2. Civil Authority;
3. Extra Expense; or
4. Extended Business Income.

The amounts of insurance stated in the Interruption Of Computer Operations Additional Coverage and the Newly Acquired Locations Coverage Extension apply in accordance with the terms of those coverages and are separate from the Limit(s) Of Insurance shown in the Declarations for any other coverage.

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- Insurer does not intend to pay more for loss than the Limit Of Insurance
  - Limits apply per occurrence
  - Full limits of insurance are available for each separate occurrence
- Certain coverages do NOT increase the Limit Of Insurance
  1. Alterations And New Buildings
  2. Civil Authority
  3. Extra Expense (Make SURE chosen limit contemplates this)
  4. Extended Business Income (Make SURE chosen limit contemplates this)
- There are some additional amounts of insurance
  - Interruption Of Computer Operations Additional Coverage
  - Newly Acquired Locations Coverage Extension





## Knowledge Check 2

1. If you already have the Ordinance or Law Coverage endorsement applicable to the building, it is not necessary to endorse the policy to add time element coverage. True or False?

2. In regard to Additional Coverage – Civil Authority which of the following statements are true?

	True	False
a. Caused by actions of the government that prohibit access to the described premises which is within five miles of the damaged property,		
b. Covers business income loss whether or not there was direct damage at the described premises		
c. Damage at other premises must be from a Covered Cause of Loss under the insured's policy		
d. Business Income and Extra Expense Coverage begins immediately		
e. Provides up to four (4) continuous weeks of coverage after the period of restoration begins		

3. How many days are granted under the Additional Coverage – Extended Business Income?

- a. Up to 30 consecutive days after the date property (except finished stock) actually repaired, rebuilt or replaced
- b. Up to 30 consecutive days after the date property (except finished stock) actually repaired, rebuilt or replaced AND operations are resumed
- c. Up to 60 consecutive days after the date property (except finished stock) actually repaired, rebuilt or replaced AND operations are resumed
- d. Up to 60 consecutive days after the date property (except finished stock) actually repaired, rebuilt or replaced OR operations are resumed

### **Learning Objective 4:**

Using knowledge of the four Loss Conditions in the Business Income (And Extra Expense) Coverage Form, the participant will describe how these conditions apply to the amount of loss payment and identify the endorsements that may be used to modify coverage.

---

Loss Conditions apply in addition to Common Policy Conditions and Commercial Property Conditions

#### **Loss Conditions**

1. Appraisal
2. Duties In The Event Of Loss
3. Loss Determination
4. Loss Payment

### C. Loss Conditions

The following conditions apply in addition to the Common Policy Conditions and the Commercial Property Conditions:

#### 1. Appraisal

If we and you disagree on the amount of Net Income and operating expense 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 amount of Net Income and operating expense or 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:

- a. Pay its chosen appraiser; and
- b. 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.

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### 1. Appraisal

- Can be requested by either insured or insurer
  - Each party selects an appraiser, and the appraisers select an umpire
  - Each party pays the costs of their appraiser and shares the cost of the umpire and related appraisal costs
- Used to determine amount of loss, NOT to determine coverage
- Can be binding if there is agreement by any two

### C. Loss Conditions

The following conditions apply in addition to the Common Policy Conditions and the Commercial Property Conditions:

#### 2. Duties In The Event Of Loss

a. You must see that the following are done in the event of loss:

- (1) Notify the police if a law may have been broken.
- (2) Give us prompt notice of the direct physical 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 direct physical 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) 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.

- (6) Send us a signed, sworn proof of loss containing the information we request to investigate the claim. You must do this within 60 days after our request. We will supply you with the necessary forms.
- (7) Cooperate with us in the investigation or settlement of the claim.
- (8) If you intend to continue your business, you must resume all or part of your "operations" as quickly as possible.

b. 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.

## 2. Duties In The Event Of Loss

- Many of the provisions are identical to those for direct damage
- Special attention to paragraph (8) is essential
  - If the named insured intends to continue the business
  - Operations are to be resumed as quickly as possible
  - Violation of this Condition will cause payment to be based upon the length of time it would have taken to resume operations as quickly as possible
  - This is stated in Loss Conditions – Loss Determination – Paragraph **C.3.d.**

*But, what if they don't intend to continue the business? Is there still a loss?*

### C. Loss Conditions

The following conditions apply in addition to the Common Policy Conditions and the Commercial Property Conditions:

#### 3. Loss Determination

- a. The amount of Business Income loss will be determined based on:
  - (1) The Net Income of the business before the direct physical loss or damage occurred;
  - (2) The likely Net Income of the business if no physical loss or damage had occurred, but not including any Net Income that would likely have been earned as a result of an increase in the volume of business due to favorable business conditions caused by the impact of the Covered Cause of Loss on customers or on other businesses;
  - (3) The operating expenses, including payroll expenses, necessary to resume "operations" with the same quality of service that existed just before the direct physical loss or damage; and ...
  - (4) Other relevant sources of information, including:
    - (a) Your financial records and accounting procedures;
    - (b) Bills, invoices and other vouchers; and
    - (c) Deeds, liens or contracts.

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### 3. Loss Determination

This policy provision is important to understand in order to fully comprehend the impact of Coinsurance!

- a. Outlines the basis for Loss Determination of the Business Income loss

- (1) Net Income before direct physical loss or damage occurred;  
**and**
- (2) The likely Net Income if no loss or damage occurred
  - BUT NOT WINDFALLS
- (3) Operating expenses, including payroll, **necessary** to resume operations with the same quality of service that existed just before the direct physical loss or damage
  - Possibility of dispute on "same quality of service"
- (4) Other relevant sources of information
  - Insurer will use the named insured's financial records, accounting procedures and other records to determine amount of Business Income loss

#### Note:

Settlement on Business Income will always be subject to negotiation as it can never be determined exactly what the insured would have earned during the period of shutdown

**Endorsements amending payroll expenses**

• **Payroll Limitation Or Exclusion CP 15 10 10 12**

<input type="checkbox"/> Only the following job classifications and/or employees:	
<b>Premises Number:</b>	<b>Building Number:</b>
<input type="checkbox"/> <b>Payroll Expense Limitation – Number Of Days:</b>	
<input type="checkbox"/> <b>Payroll Expense Exclusion</b>	
The following are subject to the provisions of this endorsement if so indicated in this Schedule:	
<input type="checkbox"/> All employees and job classifications including officers, executives, management personnel and contract employees	
<input type="checkbox"/> All employees and job classifications other than officers, executives, management personnel and contract employees	
<input type="checkbox"/> All employees and job classifications (including officers, executives, management personnel and contract employees), <b>except:</b>	
<input type="checkbox"/> Only the following job classifications and/or employees:	
Information required to complete this Schedule, if not shown above, will be shown in the Declarations.	
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- Allows the payroll component to be tailored to limit coverage to a specified time period, specified persons, classes of persons, or exclude payroll

• **Discretionary Payroll Expense CP 15 04 06 07**

<p>A. Payroll expenses for the Job Classifications and/or Employees identified in the Schedule will be included as continuing normal operating expenses in determining the amount of Business Income loss, provided that you pay such expenses regardless of whether such expenses are necessary to resume "operations".</p> <p>Payroll expenses include</p> <ol style="list-style-type: none"><li>1. Payroll;</li><li>2. Employee Benefits, if directly related to payroll;</li><li>3. FICA payments you pay;</li><li>4. Union dues you pay; and</li><li>5. Workers Compensation Premiums</li></ol>
<p><b>CP 15 04 06 07</b> © ISO Properties, Inc., 2007 <b>Page 1 of 1</b></p>

- Insured can pay payroll regardless of whether such expenses are necessary to resume "operations"

**C. Loss Conditions**

**3. Loss Determination**

...

- b. The amount of Extra Expense will be determined based on:
- (1) All expenses that exceed the normal operating expenses that would have been incurred by "operations" during the "period of restoration" if no direct physical loss or damage had occurred. We will deduct from the total of such expenses:
    - (a) The salvage value that remains of any property bought for temporary use during the "period of restoration", once "operations" are resumed; and
    - (b) Any Extra Expense that is paid for by other insurance, except for insurance that is written subject to the same plan, terms, conditions and provisions as this insurance; and
  - (2) Necessary expenses that reduce the Business Income loss that otherwise would have been incurred.

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3

b. Outlines the basis for Loss Determination of the Extra Expense recovery

- (1) Amount that exceeds normal operating expenses that would have been incurred, MINUS
  - (a) Salvage value of property bought for temporary use; MINUS
  - (b) Extra Expense paid by other insurance, unless that other insurance is written under the same terms and conditions (if the other insurance is written under the same terms and conditions, the Policy would share pro rata)
- (2) Extra Expenses incurred that reduce the amount of the Business Income loss will be paid under the Extra Expense Coverage

**C. Loss Conditions**

**3. Loss Determination**

**c. Resumption Of Operations**

We will reduce the amount of your:

- (1) Business Income loss, other than Extra Expense, to the extent you can resume your "operations", in whole or in part, by using damaged or undamaged property (including merchandise or stock) at the described premises or elsewhere.
- (2) Extra Expense loss to the extent you can return "operations" to normal and discontinue such Extra Expense.

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c. Describes how Resumption Of Operations will reduce the Business Income loss and Extra Expense loss

(1) Business Income loss will be reduced to the extent the insured can resume operations

- If they are operating they are generating income they are not suffering a loss

2) Extra Expense loss will be reduced to the extent the insured can return operations to normal and discontinue the Extra Expenses

**C. Loss Conditions**

**3. Loss Determination**

d. If you do not resume "operations", or do not resume "operations" as quickly as possible, we will pay based on the length of time it would have taken to resume "operations" as quickly as possible.

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d. Describes if operations are not resumed

- Insured is not obligated to resume operations or even resume operations expeditiously in order to collect for their actual loss sustained
- Insurer will base loss payment on length of time it would have taken to resume operations as quickly as possible



**C. Loss Conditions**

The following conditions apply in addition to the Common Policy Conditions and the Commercial Property Conditions:

**4. Loss Payment**

We will pay for covered loss within 30 days after we receive the sworn proof of loss, if you have complied with all of the terms of this Coverage Part, and:

- a. We have reached agreement with you on the amount of loss; or
- b. An appraisal award has been made.

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**4. Loss Payment**

- If the insured and the insurer are in agreement as to the amount of loss – with or without an appraisal –  
  
AND  
  
the insured has complied with all of the applicable terms, the insurer promises payment within 30 days after receipt of the proof of loss
- Filing the proof of loss before required may expedite loss payment

### Learning Objective 5:

Using knowledge of the Additional Condition on Coinsurance in the Business Income (And Extra Expense) Coverage Form, the participant will explain the Coinsurance formula, including the factors that should be used to determine the appropriate limit of insurance, Coinsurance percentage, and methods used to avoid Coinsurance.

#### D. Additional Condition COINSURANCE

If a Coinsurance percentage is shown in the Declarations, the following condition applies in addition to the Common Policy Conditions and the Commercial Property Conditions.

We will not pay the full amount of any Business Income loss if the Limit of Insurance for Business Income is less than:

1. The Coinsurance percentage shown for Business Income in the Declarations; times
2. The sum of:
  - a. The Net Income (Net Profit or Loss before income taxes), and
  - b. Operating expenses, including payroll expenses, that would have been earned or incurred (had no loss occurred) by your "operations" at the described premises for the 12 months following the inception, or last previous anniversary date, of this policy (whichever is later).

Instead, we will determine the most we will pay using the following steps:

Step (1): Multiply the Net Income and operating expense for the 12 months following the inception, or last previous anniversary date, of this policy by the Coinsurance percentage;

Step (2): Divide the Limit of Insurance for the described premises by the figure determined in Step (1); and

Step (3): Multiply the total amount of loss by the figure determined in Step (2).

We will pay the amount determined in Step (3) or the limit of insurance, whichever is less. For the remainder, you will either have to rely on other insurance or absorb the loss yourself.

### Coinsurance Option

If a Coinsurance percentage is shown in the Declarations, it applies to Business Income.

- Coinsurance options available 50%, 60%, 70%, 80%, 90%, 100%, 125% or no Coinsurance
- The no Coinsurance option is not available for blanket insurance

**Coinsurance Formula Amount Requirement**

In the coinsurance formula the amount required is the net income plus all operating expenses times the coinsurance percentage

- This amount applies to the 12-month period following the inception

OR

The last previous anniversary date of the policy

WHICHEVER IS LATER

- Advantageous to the insured as they only have to anticipate values for the current policy year
- Any business growth during the year must be addressed by increasing limits as soon as the increase becomes apparent

**D. Additional Condition**

**COINSURANCE**

...

In determining operating expenses for the purpose of applying the Coinsurance condition, the following expenses, if applicable, shall be deducted from the total of all operating expenses:

- (1) Prepaid freight – outgoing;
- (2) Returns and allowances;
- (3) Discounts;
- (4) Bad debts;
- (5) Collection expenses;
- (6) Cost of raw stock and factory supplies consumed (including transportation charges);
- (7) Cost of merchandise sold (including transportation charges);
- (8) Cost of other supplies consumed (including transportation charges);
- (9) Cost of services purchased from outsiders (not employees) to resell, that do not continue under contract;
- (10) Power, heat and refrigeration expenses that do not continue under contract (if Form **CP 15 11** is attached);
- (11) All payroll expenses or the amount of payroll expense excluded (if Form **CP 15 10** is attached); and
- (12) Special deductions for mining properties (royalties unless specifically included in coverage; actual depletion commonly known as unit or cost depletion – not percentage depletion; welfare and retirement fund charges based on tonnage; hired trucks).

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**Determining operating expenses**

Certain expenses as described above shall be deducted from the total of all operating expenses

Two endorsements available that can be used to alter these expenses:

- **Payroll Limitation Or Exclusion CP 15 10 10 12**
  - All payroll expense may be excluded from coverage and from coinsurance provisions
- **Power, Heat And Refrigeration Deduction CP 15 11 07 88**
  - The cost of power, heat and refrigeration consumed in production operations and which does not continue under contract may be deducted from Business Income
  - Applies to manufacturing and mining risks only

## Coinsurance Formula

**Amount Carried** = Limit Of Insurance

**Amount Required** = (Net Income + All Operating Expenses) multiplied by the Coinsurance Percentage

$$\frac{\text{Amount Carried}}{\text{Amount Required}} \times \text{Loss} = \text{Recovery (up to Limit Of Insurance)}$$

### Example 1 (Underinsurance)

When: The Net Income and operating expenses for the 12 months following the inception, or last previous anniversary date, of this policy at the described premises would have been: \$ 400,000  
The Coinsurance percentage is: 50%  
The Limit of Insurance is: \$ 150,000  
The amount of loss is: \$ 80,000

Step (1):  $\$400,000 \times 50\% = \$200,000$   
(the minimum amount of insurance to meet your Coinsurance requirements)

Step (2):  $\$150,000 \div \$200,000 = .75$

Step (3):  $\$80,000 \times .75 = \$60,000$

We will pay no more than \$60,000. The remaining \$20,000 is not covered.

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### Example 2 (Adequate Insurance)

When: The Net Income and operating expenses for the 12 months following the inception, or last previous anniversary date, of this policy at the described premises would have been: \$ 400,000  
The Coinsurance percentage is: 50%  
The Limit of Insurance is: \$ 200,000  
The amount of loss is: \$ 80,000

The minimum amount of insurance to meet your Coinsurance requirement is \$200,000 ( $\$400,000 \times 50\%$ ). Therefore, the Limit of Insurance in this example is adequate and no penalty applies. We will pay no more than \$80,000 (amount of loss).

This condition does not apply to Extra Expense Coverage.

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**Determining appropriate Limit Of Insurance**

Factors that should be used to determine the appropriate Limit Of Insurance

1. Expected “period of restoration”
  - Climate considerations
  - Type of construction
  - Delays due to ordinances or laws
2. Business Income loss during “period of restoration”, taking into account:
  - Peak periods, etc.
  - Expected growth
3. Period of time to restore operations to the level of income that would have existed had no loss occurred (Extended Business Income)
4. Any normal continuing operating expenses that are specifically excluded or limited; for example, payroll
5. Add in an estimated amount for Extra Expenses they may incur

## Selecting the Coinsurance percentage

### IMPORTANT!

The selection of the coinsurance percentage is separate and distinct from the application of the Coinsurance Clause

3

How to decide whether to select 50%, 60%, 70%, 80%, etc.?

- Select amount of money needed to pay for the loss (Step 1). This will become the Limit of Insurance (amount carried).
- Determine the basis of measurement for Coinsurance (amount required). The measurement is the Net Income plus all operating expenses for a 12-month period (Step 2).
- Divide the result of Step 1 above by the result of Step 2 above. This will give you a reasonably accurate Coinsurance choice. If it is not exactly one of the available choices, round down to the next choice available (Step 3).

## Methods to avoid potential Coinsurance penalties

- Activate one of the Optional Coverages
  - 1) Maximum Period Of Indemnity
  - 2) Monthly Limit Of Indemnity
  - 3) Business Income Agreed Value
- Attach endorsement **Business Income Premium Adjustment CP 15 20 06 95**
  - Under this form, the initial premium paid by the insured for Business Income Coverage will be adjusted annually based on reports of values. Any premium in excess of the amount actually required will be refunded to the insured. The Coinsurance Condition remains in full force and applies to the limit of insurance in the usual manner.
  - Requires completion and submission of **Business Income Report/Worksheet CP 15 15 10 12**

### **Learning Objective 6:**

Using knowledge of the four Optional Coverages in the Business Income (And Extra Expense) Coverage Form, the participant will determine how claims are settled.

---

Optional Coverages are triggered/activated by entries on the Declarations.

#### **Optional Coverages**

1. Maximum Period Of Indemnity
2. Monthly Limit Of Indemnity
3. Business Income Agreed Value
4. Extended Period Of Indemnity



## 1. Maximum Period Of Indemnity

### E. Optional Coverages

If shown as applicable in the Declarations, the following Optional Coverages apply separately to each item.

#### 1. Maximum Period Of Indemnity

- a. The Additional Condition, Coinsurance, does not apply to this Coverage Form at the described premises to which this Optional Coverage applies.
- b. The most we will pay for the total of Business Income loss and Extra Expense is the lesser of:
  - (1) The amount of loss sustained and expenses incurred during the 120 days immediately following the beginning of the "period of restoration"; or
  - (2) The Limit Of Insurance shown in the Declarations.

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- Activate coverage by marking "X" in the appropriate box on the Declarations
- All that is changed by this option is how long the policy will pay
- Coinsurance does not apply when this optional coverage is chosen
- Maximum recovery for Business Income, including Extra Expense losses is – lesser of:
  - (1) Amount of Business Income and Extra Expense loss during the first 120 days following the beginning of the "period of restoration"; OR
  - (2) Limit Of Insurance

#### *Maximum Period Of Indemnity Example*

Limit Of Insurance – \$200,000			
<u>Period of Restoration</u>	<u>Business Income Loss</u>	<u>Extra Expense Loss</u>	<u>Amount Paid</u>
Days 1-120	\$90,000	\$35,000	\$125,000
<u>120 days ends here</u>			
Days 120 +	\$25,000	\$15,000	\$0

## 2. Monthly Limit Of Indemnity

### E. Optional Coverages

If shown as applicable in the Declarations, the following Optional Coverages apply separately to each item.

#### 2. Monthly Limit Of Indemnity

- a. The Additional Condition, Coinsurance, does not apply to this Coverage Form at the described premises to which this Optional Coverage applies.
- b. The most we will pay for loss of Business Income in each period of 30 consecutive days after the beginning of the "period of restoration" is:
  - (1) The Limit of Insurance, multiplied by
  - (2) The fraction shown in the Declarations for this Optional Coverage.

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- Activate coverage by entry of a fraction on the Declarations
- Monthly refers to consecutive 30-day periods, not necessarily calendar month
- What is being changed is how much will be paid by the policy
- Coinsurance does not be apply when this optional coverage is chosen
- Maximum recovery for **Business Income** IN EACH PERIOD OF 30 CONSECUTIVE DAYS AFTER THE BEGINNING OF THE "PERIOD OF RESTORATION" is equal to

Limit of Insurance x Fraction shown in Declarations = Most that is paid in each period

- The limitation only applies to the Business Income loss and does not apply to any Extra Expense loss
- Amount payable in any one 30-day period will be the amount of the Business Income loss (subject to the monthly limitation) **PLUS** any Extra Expense loss incurred during the month
- The limitation only limits how much can be paid in any one 30-day period, not for how long
  - Will continue to pay for the entire "period of restoration" or until the Limit Of Insurance is exhausted
- Available limitations are 1/4, 1/3, 1/6

**Monthly Limit Of Indemnity Example 1:**

An insured suffers a loss of Business Income following a fire.

The policy has a Limit of Insurance of \$120,000 with a 1/4 fraction shown under the Monthly Limit Of Indemnity in the Declarations. The most paid for loss in each period of 30 consecutive days is \$120,000 times 1/4 equals \$30,000.

The period of restoration for this loss is three months and the claim is submitted and paid in the following way:

Time Period	Amount Submitted	Amount Paid
Days 1 – 30	\$40,000	\$30,000
Days 31 – 60	\$20,000	\$20,000
Days 61 – 90	\$30,000	\$30,000
	<b>Total Paid:</b>	<b>\$80,000</b>

A claim for Extra Expense was not submitted

**Monthly Limit Of Indemnity Example 2:**

The Limit of Insurance is \$120,000.

The fraction shown in the Declarations for Monthly Limit Of Indemnity is 1/4.

The most paid for loss in each period of 30 consecutive days is \$120,000 x 1/4 = \$30,000

The claim is submitted and paid in the following way:

	Extra Expense Loss	Business Income Loss	Total Loss Submitted	Total Paid
Days 1–30	\$10,000	\$40,000	\$50,000	\$40,000*
Days 31–60	\$5,000	\$20,000	\$25,000	\$25,000
Days 61–90	\$3,000	\$20,000	\$23,000	\$23,000
Days 91–120	\$4,000	\$25,000	\$29,000	\$29,000
Days 121–150	\$7,000	\$30,000	\$37,000	\$3,000**
	\$29,000	\$135,000	\$164,000	\$120,000***

\*Business Income Loss limited to \$30,000 because of the consecutive 30-day limitation

\*\*Policy limit has been exhausted at this point

\*\*\*The remaining \$44,000 is not covered.

**Notes:**

The 30-day period where there was not enough limit could have been solved by carrying a higher total limit in order to make the applicable limit higher, **OR** the limitation could have been 1/3 which would have yielded a higher 30-day limit while not increasing the total limit.

$\$120,000 \times 1/3 = \$40,000$

The only reason the policy stopped paying was because the Limit Of Insurance was exhausted. If the Limit Of Insurance had been higher, the policy would continue to pay during the entire “period of restoration”.

#### E. Optional Coverages

If shown as applicable in the Declarations, the following Optional Coverages apply separately to each item.

##### 3. Business Income Agreed Value

- a. To activate this Optional Coverage:
  - (1) A Business Income Report/Work Sheet must be submitted to us and must show financial data for your "operations":
    - (a) During the 12 months prior to the date of the Work Sheet; and
    - (b) Estimated for the 12 months immediately following the inception of this Optional Coverage.
  - (2) The Declarations must indicate that the Business Income Agreed Value Optional Coverage applies, and an Agreed Value must be shown in the Declarations. The Agreed Value should be at least equal to:
    - (a) The Coinsurance percentage shown in the Declarations; multiplied by
    - (b) The amount of Net Income and operating expenses for the following 12 months you report on the Work Sheet.
- b. The Additional Condition, Coinsurance, is suspended until:
  - (1) 12 months after the effective date of this Optional Coverage; or
  - (2) The expiration date of this policy;whichever occurs first.
- c. We will reinstate the Additional Condition, Coinsurance, automatically if you do not submit a new Work Sheet and Agreed Value:
  - (1) Within 12 months of the effective date of this Optional Coverage; or
  - (2) When you request a change in your Business Income Limit of Insurance.
- d. If the Business Income Limit of Insurance is less than the Agreed Value, we will not pay more of any loss than the amount of loss multiplied by:
  - (1) The Business Income Limit of Insurance; divided by
  - (2) The Agreed Value.

### 3. Business Income Agreed Value

- Requires completion of **Business Income/Report Work Sheet CP 15 15 10 12**
  - Many companies have their own worksheet or will accept an equivalent form
- Requires activation in the Declarations
  - Must indicate on Declarations that Business Income Agreed Value applies
  - Must show an Agreed Value (dollar amount)
- Suspends Coinsurance for 12 months after effective date of Optional Coverage unless the named insured requests a change in the Limit of Insurance

### Premium Impact Of The Options To Coinsurance

Assume the following facts:

Building 80% Coinsurance rate is \$.50  
Needed Limit Of Insurance is \$500,000  
50% Coinsurance is the proper choice  
Business is a non-manufacturing company

- Using the Coinsurance option, the premium calculation is

$$\begin{array}{r} .50 \\ \times .76 \text{ Rate Modifier} \\ \hline .38 \\ \times 500,000 \\ \hline \$1,900 \text{ annual premium} \end{array}$$

- Using the Maximum Period Of Indemnity option

$$\begin{array}{r} .50 \\ \times 1.15 \text{ Rate Modifier} \\ \hline .575 \\ \times 500,000 \\ \hline \$2,875 \text{ annual premium} \end{array}$$

- Using Monthly Limitation of Indemnity option  
(at 1/4 Monthly Limitation)

$$\begin{array}{r} .50 \\ \times .96 \text{ Rate Modifier} \\ \hline .48 \\ \times 500,000 \\ \hline \$2,400 \end{array}$$

- Using the Business Income Agreed Value option

$$\begin{array}{r} .50 \\ \times .76 \text{ (still using the applicable Coinsurance modifier)} \\ \hline .38 \\ \times 1.10 \text{ (Business Income Agreed Value modifier)} \\ \hline .418 \\ \times 500,000 \\ \hline \$2,090 \end{array}$$

If the goal were to eliminate the Coinsurance clause at the least possible cost with the best possible coverage terms, which option would you use?

#### E. Optional Coverages

If shown as applicable in the Declarations, the following Optional Coverages apply separately to each item.

##### 4. Extended Period Of Indemnity

Under Paragraph A.5.c., **Extended Business Income**, the number 60 in Subparagraphs (1)(b) and (2)(b) is replaced by the number shown in the Declarations for this Optional Coverage.

CP 00 30 10 12

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#### 4. Extended Period Of Indemnity

- Increases the time period for which the Additional Coverage – Extended Business Income will apply
  - Must indicate the number of days for this Additional Coverage
  - Entry in Declarations must be the total number of days as the entry replaces the “60” shown in the policy in Paragraph A.5.c.
- Does not increase the amount of insurance available
  - Must be sure Limit Of Insurance contemplates the additional time

Extended Period Of Indemnity – Rate Modifiers	
Number of Days	Factor
90	1.05
120	1.10
150	1.20
180	1.25
270	1.30
365	1.35
450	1.40
540	1.45
630	1.50
730	1.55

**Business Income Coverage Form**  
**Overview of Optional Coverages**  
**CP 00 30 And CP 00 32**

Maximum Period Of Indemnity	Monthly Limit Of Indemnity	Business Income Agreed Value	Extended Period Of Indemnity
Limits payments to 120 days or until the Limit of Insurance is exhausted	Limits payment in any 30-day period to 1/3, 1/4, or 1/6 as shown in Declaration	Suspends Coinsurance	Used to extend the Business Income time period beyond the 60 days after operations have resumed
Coinsurance does not apply	Coinsurance does not apply	Business Income Report/Worksheet CP 15 15 is required	



## Knowledge Check 3

1. Which of the following is an accurate statement in regard to Loss Determination?
  - a. Net income after the direct physical loss or damage is covered.
  - b. All operating expenses are covered as result of a direct physical loss or damage whether necessary or not.
  - c. Operating expenses, including payroll, necessary to resume operations with the same quality of service that existed just before the direct physical loss or damage are covered.
  - d. Amount that exceeds normal operating expenses plus salvage.
2. The named insured selects Maximum Period of Indemnity Optional Coverage with a limit of \$100,000. Indicate which of the following is an accurate statement.

	True	False
a. Pays up to the limit of insurance for loss sustained and expenses during the 120 days following the beginning of the period of restoration.		
b. Pays up to the limit of \$100,000 for loss sustained and expenses beginning at the date of loss.		

3. The named insured selects the Monthly Limit of Indemnity Optional Coverage at a limit of \$160,000 with a monthly limit of 1/4 shown in the Declarations. Which of the following is an accurate statement?
  - a. In the first 30 days, a business income loss amount of \$50,000 is sustained. The policy pays the full amount as it is less than the \$160,000 indicated in the Declarations.
  - b. In the first 30 days, a business income loss amount of \$80,000 is sustained. The policy pays \$40,000 (\$160,000 times 1/4).
  - c. In the first 30 days, a business income loss amount of \$80,000 is sustained. The policy pays \$20,000 (\$80,000 times 1/4).



### Learning Objective 7:

Using knowledge of the Business Income (Without Extra Expense) Coverage Form, the participant will describe how extra expenses are paid to reduce loss under this form compared to the Business Income (And Extra Expense) Coverage Form.

**CP 00 32 10 12** is identical to **CP 00 30 10 12** in regard to Business Income Coverage as Business Income Coverage is the only coverage identified under the Coverage Insuring Agreement.

The **CP 00 32 10 12** does NOT provide Extra Expense Coverage in the Coverage Insuring Agreement, instead it provides an Additional Coverage for Expenses To Reduce Loss.

#### 4. Additional Coverages

##### a. Expenses To Reduce Loss

In the event of a covered loss of Business Income, we will pay necessary expenses you incur, except the cost of extinguishing a fire, to avoid further loss of Business Income. The total of our payment for Business Income loss and Expenses To Reduce Loss will not be more than the Business Income loss that would have been payable under this Coverage Form (after application of any Coinsurance penalty) if the Expenses To Reduce Loss had not been incurred. This coverage does not increase the Limit of Insurance.

The Coinsurance condition does not apply specifically to such Expenses To Reduce Loss, but it is used as described above to determine the total amount payable.

CP 00 32 10 12

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### Additional Coverages

- Expenses are paid only to the extent that they reduce the Business Income loss
- No reference to Extra Expense under Additional Coverages – Civil Authority
- No reference to Extra Expense under Loss Conditions – Loss Determination

### Learning Objective 8:

Using knowledge of the Extra Expense Coverage Form, including the definition of period of restoration, the participant will determine the amount paid for extra expense under this form and the endorsements that may be used to modify coverage.

### Coverage – Insuring Agreement

#### 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: ...

CP 00 50 10 12

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- Pays for the exact same Extra Expenses as in **Business Income (And Extra Expense) Coverage Form CP 00 30 10 12**
- Pays for actual and necessary Extra Expenses sustained
- Amount available to pay losses is based on the “period of restoration”
  - Length of “period of restoration” tells us which recovery percentage applies
  - Amount paid will be based on the actual loss sustained by the insured up to the amount available based on the period of restoration

#### D. Definitions

2. "Period of restoration" means the period of time that:

- a. Begins with the date of direct physical loss or damage caused by or resulting from any Covered Cause of Loss at the described premises; and
- b. Ends on the earlier of:

- (1) The date when the property at the described premises should be repaired, rebuilt or replaced with reasonable speed and similar quality; or
- (2) The date when business is resumed at a new permanent location.

"Period of restoration" does not include any increased period required due to the enforcement of or compliance with any ordinance or law that:

- (1) Regulates the construction, use or repair, or requires the tearing down, of any property; or
- (2) Requires any insured or others to test for, monitor, clean up, remove, contain, treat, detoxify or neutralize, or in any way respond to, or assess the effects of "pollutants".

The expiration date of this policy will not cut short the "period of restoration"

## Limits On Loss Payment

(selected Loss Condition for discussion)

### 3. Limits On Loss Payment

We will not pay more for Extra Expense than the percentages shown in the Declarations times the Limit of Insurance.

When the "period of restoration" is:

- a. 30 days or less, the first percentage applies.
- b. 60 days or less, but more than 30 days, the second percentage applies.
- c. More than 60 days, the third percentage applies.

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- Maximum recovery for Extra Expense depends on how long the “period of restoration” is
  - a. 30 days or less, the first percentage applies
  - b. 60 days or less, but more than 30 days, the second percentage applies.
  - c. More than 60 days, the third percentage applies

Application of Limits
<p>The following scenarios are based on three different insureds who sustain an extra expense loss under <b>CP 00 50</b>.</p> <p>Limit Of Insurance: \$100,000. Percentage shown on the Declarations: 40%-80%-100%.</p>
<p><b>Scenario 1:</b></p> <p>A large loss occurs and it takes the business 115 days (almost 4 months) to find a new permanent location to resume operations. \$120,000 of covered extra expenses are sustained</p> <p>Since the period of restoration is more than 60 days, the third percentage shown on the declaration applies.</p> <p>Amount Available for Recovery is \$100,000 (<math>\\$100,000 \times 100\%</math>)</p> <p>Amount of recovery <u>\$100,000</u>. The remaining \$20,000 of loss is not covered.</p>
<p><b>Scenario 2:</b></p> <p>A small loss occurs and it only takes the business 15 days to make repairs and resume operations. \$50,000 of covered extra expenses are sustained</p> <p>Since the period of restoration is 30 days or less, the first percentage shown on the declaration applies.</p> <p>Limit Available is <u>\$40,000</u> (<math>\\$100,000 \times 40\%</math>)</p> <p>Amount of recovery <u>\$40,000</u>. The remaining \$10,000 of loss is not covered</p>
<p><b>Scenario 3:</b></p> <p>It takes the business 45 days to make repairs and resume operations.</p> <p>\$90,000 of covered extra expenses are sustained. It does not matter when those expenses occurred during the 45 days.</p> <p>Since the period of restoration is more than 30 days but 60 days or less, the second percentage shown on the declaration applies.</p> <p>Amount available for recovery is \$80,000 (<math>\\$100,000 \times 80\%</math>)</p> <p>Amount of recovery <u>\$80,000</u>. The remaining \$10,000 of loss is not covered</p>

**REMINDER!**

In the **Extra Expense Coverage Form CP 00 50**, it is the period or restoration that determines how much of the limit is available to pay a claim

**Endorsements available to modify coverage:**

- **Expanded Limits On Loss Payment CP 15 07 11 85**

- Allows customization of the recovery

- A. We will not pay more for Extra Expense than the percentages shown in the Declarations, or in the Schedule, times the Limit of Insurance.

**SCHEDULE**

**When the "period of restoration" is:**

**Percentage Applicable**

30 days or less  
 60 days or less, but more than 30 days  
 90 days or less, but more than 60 days  
 120 days or less, but more than 90 days  
 150 days or less, but more than 120 days  
 180 days or less, but more than 150 days  
 210 days or less, but more than 180 days  
 240 days or less, but more than 210 days  
 270 days or less, but more than 240 days  
 300 days or less, but more than 270 days  
 330 days or less, but more than 300 days  
 360 days or less, but more than 330 days  
 More than 360 days

- B. For any "period of restoration" for which a percentage is not shown, the percentage applicable is 100%.

- **Extra Expense From Dependent Properties CP 15 34 10 12**

- Used for named insureds that may have an exposure for dependent properties
- Almost identical coverage terms and conditions as Business Income From Dependent Properties

- **Extra Expense From Dependent Properties – Limited International Coverage CP 15 02 10 12**

- Almost identical coverage terms and conditions as Business Income From Dependent Properties – Limited Form

## Premium Impact Of Using The Extra Expense Coverage Form

### Assumptions

Limit is \$500,000

Recovery Percentage is 40%/80%/100%

Building Rate is \$.50

$$\begin{array}{r}
 .50 \\
 \times 1.70 \text{ (Rate Modifier for 40/80/100 recovery)} \\
 \hline
 .85 \\
 \times 500,000 \\
 \hline
 \$4,250 \text{ Annual Premium}
 \end{array}$$

Now, supposed we use Business Income (And Extra Expense) instead.  
Using the same assumptions as above.

$$\begin{array}{r}
 .50 \\
 \times .76 \text{ (Rate modifier for 50% Coinsurance)} \\
 \hline
 .38 \\
 \times 500,000 \\
 \hline
 \$1,900 \text{ Annual Premium}
 \end{array}$$

This is a significant premium difference. But what about the quality of coverage?

Extra Expense	Business Income (And Extra Expense)
Limit available depends on “period of restoration”	Full limit available from day one of loss
More expensive	Less expensive
Only options are percentage of recovery available	Available options <ul style="list-style-type: none"> <li>• Maximum Period Of Indemnity</li> <li>• Monthly Period Of Indemnity</li> <li>• Business Income Agreed Value</li> </ul>

Even using Maximum Period Of Indemnity (the most expensive option), the premium impact is

$$\begin{array}{r}
 .50 \\
 \times 1.15 \\
 \hline
 .575 \\
 \times 500,000 \\
 \hline
 \$2,875 \text{ Annual Premium}
 \end{array}$$

**So, which of these options would you propose to your insured?**

### Learning Objective 9:

Using knowledge of the Leasehold Interest Coverage Form, the participant will describe the four Covered Leasehold Interests and how coverage is triggered.

Designed to provide coverage when an insured is a tenant and has a favorable lease and the lease is cancelled by the landlord as a result of direct physical loss from a Covered Cause Of Loss at the premises described in the Declarations. If the insured relocates to another premises the lease at a new location may be at a higher cost which is why this form is needed.

### Coverage – Insuring Agreement

#### *Leasehold Interest Coverage Form – Insuring Agreement*

<p style="text-align: center;"><b>LEASEHOLD INTEREST COVERAGE FORM</b></p> <p>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.</p> <p><b>A. COVERAGE</b></p> <p>We will pay for loss of Covered Leasehold Interest you sustain due to the cancellation of your lease. The cancellation must result from direct physical loss of or damage to property at the premises described in the Declarations caused by or resulting from any Covered Cause of Loss.</p> <p>1. Covered Leasehold Interest</p> <p style="padding-left: 40px;">Covered Leasehold Interest means the following for which an amount of "net leasehold interest" at inception is shown in the Leasehold Interest Coverage Schedule: ...</p> <p>CP 00 60 06 95 <span style="float: right;">Copyright, ISO Commercial Risk Services, Inc., 1994</span> <span style="float: right;">Page 1 of 4</span></p>
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- Pays for loss of Covered Leasehold Interest sustained due to cancellation of the named insured's lease
- Cancellation must result from direct physical loss of or damage to property at the described premises
  - No requirement that the damaged property be property of the insured
  - No requirement that the damaged property be covered property
- Must be caused by or resulting from any Covered Cause of Loss

- Coverage applies but only if an amount is shown in the Leasehold Interest Coverage Schedule for one or more of the Covered Leasehold Interests

#### Four Covered Leasehold Interests

- Tenant's Lease Interest
- Bonus Payments
- Improvements and Betterments
- Prepaid Rent

Partial copy of CP DS 07 10 00

#### LEASEHOLD INTEREST COVERAGE SCHEDULE

This endorsement provides supplementary information to be used with the following:  
LEASEHOLD INTEREST COVERAGE FORM

Inception Date of Lease \_\_\_\_\_ Months Remaining at Inception \_\_\_\_\_  
Expiration Date of Lease \_\_\_\_\_ % Interest \_\_\_\_\_

The Leasehold Interest Coverage Form applies to the items described below for which an amount of "Net Leasehold Interest" At Inception is shown:

	"Gross Leasehold Interest"	"Monthly Leasehold Interest"	"Net Leasehold Interest" At Inception	Premium
Tenants Lease Interest	\$ _____ per month	xxxxx	\$ _____	\$ _____
Bonus Payments	xxxx	\$ _____	\$ _____	\$ _____
Improvements And Betterments	xxxx	\$ _____	\$ _____	\$ _____
Prepaid Rent	xxxx	\$ _____	\$ _____	\$ _____
Total Covered Leasehold Interest			\$ _____	\$ _____



## Four Covered Leasehold Interests

### 1. Covered Leasehold Interest

- a. **Tenants' Lease Interest**, meaning the difference between the:
  - (1) Rent you pay at the described premises; and
  - (2) Rental value of the described premises that you lease.
- b. **Bonus Payments**, meaning the unamortized portion of a cash bonus that will not be refunded to you. A cash bonus is money you paid to acquire your lease. It does not include:
  - (1) Rent, whether or not prepaid; or
  - (2) Security.
- c. **Improvements and Betterments**, meaning the unamortized portion of payments made by you for improvements and betterments. It does not include the value of improvements and betterments recoverable under any other insurance, but only to the extent of such other insurance.  
Improvements and betterments are fixtures, alterations, installations or additions:
  - (1) Made a part of the building or structure you occupy but do not own; and
  - (2) You acquired or made at your expense but cannot legally remove.
- d. **Prepaid Rent**, meaning the unamortized portion of any amount of advance rent you paid that will not be refunded to you. This does not include the customary rent due at:
  - (1) The beginning of each month; or
  - (2) Any other rental period.

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#### a. Tenant's Lease Interest

- Additional rent the insured must pay to lease comparable premises

#### b. Bonus Payments

- Unamortized value of any bonus payments to secure the premises that are not refundable

#### c. Improvements and Betterments

- Unamortized portion of the value of the tenant's improvements and betterments that the insured has made at his/her own expense
- Only applies if TIB are not covered under another policy

#### d. Prepaid Rent

- Unamortized value of any prepaid rent that is not refundable

**A. COVERAGE**

**2. Covered Causes Of Loss**

See applicable Causes of Loss Form as shown in the Declarations.

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**Insuring Agreement – Covered Causes Of Loss**

- Direct physical loss or damage must be caused by or resulting from any Covered Cause of Loss
  - The applicable Causes Of Loss Form will be shown in the Declarations
  - It is possible (perhaps not advisable) to have different Causes Of Loss apply to direct damage
- RECAP – to “trigger” leasehold interest
  - Actual loss of covered leasehold interest
  - Cancellation of the lease by the landlord
  - Caused by direct physical loss to property at the described premises
  - From a Covered Cause Of Loss

**Note:**

Further discussion is beyond the scope of this course



## Knowledge Check 4

1. The named insured has purchased an Extra Expense Coverage Form with a limit of \$100,000 indicated on the Declarations with a percentage basis of 40%, 80%, 100%. For each of the following indicate whether the following statements are accurate. A loss occurs, and the period of restoration is 50 days. Expenses the first month are \$70,000 and the second month are \$20,000. Which of the following is accurate?
  - a. Since the period of restoration is 50 days, recovery is \$80,000 (\$100,000 x 80%).
  - b. Since the period of restoration is 50 days with a maximum \$100,000 limit, recovery is \$90,000.
  - c. Since the limit is \$100,000, recovery is \$60,000 (\$40,000 for the first month and \$ 20,000 for the second month).
2. The named insured has purchased a Leasehold Coverage Form with all four coverages selected. The property the named insured was renting is destroyed by a fire and subsequently the lease is cancelled, and the named insured has to rent at another location. Indicate if the following statements are true in regard to the Leasehold Coverage Form.

	True	False
a. The named insured's rent at a new location is higher. The difference between the old rent and new rent is covered.		
b. On the cancelled lease, the named insured will be reimbursed the entire Bonus Payment that was paid to secure the leased premises.		
c. On the cancelled lease, the unamortized portion of the tenant's improvements and betterments will be covered.		
d. Pre-paid rent at the damaged location will not be covered.		

## Review of Learning Objectives

1. Using knowledge of Business Income (And Extra Expense) Coverage Form including the key definitions, the participant will describe the elements needed to trigger the business income and extra expense coverage, and endorsements, if any, that may be used to modify coverage.
2. Using knowledge of the Business Income (And Extra Expense) Coverage Form including:
  - Covered Causes Of Loss, Exclusions, And Limitations
  - Additional Limitation – Interruption Of Computer Operationsthe participant will be able to identify and describe available endorsements to provide coverage for causes of loss that would otherwise be excluded or limited.
3. Using knowledge of the Business Income (And Extra Expense) Coverage Form's four Additional Coverages, and the Coverage Extension for Newly Acquired Locations, the participant will be able to explain how coverage applies in the event of a loss, and the endorsements available to modify coverage.
4. Using knowledge of the four Loss Conditions in the Business Income (And Extra Expense) Coverage Form, the participant will describe how these conditions apply to the amount of loss payment and identify the endorsements that may be used to modify coverage.
5. Using knowledge of the Additional Condition on Coinsurance in the Business Income (And Extra Expense) Coverage Form, the participant will explain the Coinsurance formula, including the factors that should be used to determine the appropriate limit of insurance, Coinsurance percentage, and methods used to avoid Coinsurance.
6. Using knowledge of the four Optional Coverages in the Business Income (And Extra Expense) Coverage Form, the participant will determine how claims are settled.
7. Using knowledge of the Business Income (Without Extra Expense) Coverage Form, the participant will describe how extra expenses are paid to reduce loss under this form compared to the Business Income (And Extra Expense) Coverage Form
8. Using knowledge of the Extra Expense Coverage Form, including the definition of period of restoration, the participant will determine the amount paid for extra expense under this form and the endorsements that may be used to modify coverage.
9. Using knowledge of the Leasehold Interest Coverage Form, the participant will describe the four Covered Leasehold Interests and how coverage is triggered.



## Knowledge Check 1 – ANSWERS

3

1. Which of the following best describes business income?

- a. **Net income (Net Profit or Loss before income taxes) that would have been earned or incurred; and continuing normal operating expenses incurred, including payroll.**

2. Indicate whether the following are true or false in regard to Period of Restoration.

	True	False
a. Business Income begins 72 hours after the time of direct physical loss or damage caused by or resulting from a Covered Cause of Loss at the described premises	X	
b. Extra Expense begins with the time of direct physical loss or damage caused by or resulting from a Covered Cause of Loss at the described premises	X	
c. Ends on the date when the property at the described premises should be repaired, rebuilt or replaced with like kind and quality and using reasonable speed	X	
d. Ends 45 days after the insured's operations resume at a new permanent location		X
e. Expiration date of the Policy ends the "period of restoration"		X

3. In each of the following examples, indicate which of the following types of dependent property exposures it represents:

	Contributing location	Recipient location	Manufacturing location	Leader location
a. The anchor tenant in the local mall where the named insureds store is located				X
b. A company that provides key components that are used in the named insureds manufacturing process	X			
c. The company that purchases 75% of the named insureds products		X		
d. The company that produces and distributes items directly to the named insureds customers			X	



## Knowledge Check 2 – ANSWERS

1. If you already have the Ordinance or Law Coverage endorsement applicable to the building, it is not necessary to endorse the policy to add time element coverage. True or False?

**False**

2. In regard to Additional Coverage – Civil Authority which of the following statements are true?

	True	False
a. Caused by actions of the government that prohibit access to the described premises which is within five miles of the damaged property,		X
b. Covers business income loss whether or not there was direct damage at the described premises		X
c. Damage at other premises must be from a Covered Cause of Loss under the insured's policy	X	
d. Business Income and Extra Expense Coverage begins immediately		X
e. Provides up to four (4) continuous weeks of coverage after the period of restoration begins	X	

3. How many days are granted under the Additional Coverage – Extended Business Income?

- c. Up to 60 consecutive days after the date property (except finished stock) actually repaired, rebuilt or replaced AND operations are resumed.



## Knowledge Check 3 – ANSWERS

3

1. Which of the following is an accurate statement in regard to Loss Determination?
  - c. **Operating expenses, including payroll, necessary to resume operations with the same quality of service that existed just before the direct physical loss or damage are covered.**
2. The named insured selects Maximum Period of Indemnity Optional Coverage with a limit of \$100,000. Indicate which of the following is an accurate statement.

	True	False
a. Pays up to the limit of insurance for loss sustained and expenses during the 120 days following the beginning of the period of restoration.	X	
b. Pays up to the limit of \$100,000 for loss sustained and expenses beginning at the date of loss.		X

3. The named insured selects the Monthly Limit of Indemnity Optional Coverage at a limit of \$160,000 with a monthly limit of 1/4 shown in the Declarations. Which of the following is an accurate statement?
  - b. **In the first 30 days, a business income loss amount of \$80,000 is sustained. The policy pays \$40,000 (\$160,000 times 1/4).**



## Knowledge Check 4 – ANSWERS

1. The named insured has purchased an Extra Expense Coverage Form with a limit of \$100,000 indicated on the Declarations with a percentage basis of 40%, 80%, 100%. For each of the following indicate whether the following statements are accurate. A loss occurs, and the period of restoration is 50 days. Expenses the first month are \$70,000 and the second month are \$20,000. Which of the following is accurate?
  - a. Since the period of restoration is 50 days, recovery is \$80,000 (\$100,000 x 80%).
2. The named insured has purchased a Leasehold Coverage Form with all four coverages selected. The property the named insured was renting is destroyed by a fire and subsequently the lease is cancelled, and the named insured has to rent at another location. Indicate if the following statements are true in regard to the Leasehold Coverage Form.

	True	False
a. The named insured's rent at a new location is higher. The difference between the old rent and new rent is covered.	X	
b. On the cancelled lease, the named insured will be reimbursed the entire Bonus Payment that was paid to secure the leased premises.		X
c. On the cancelled lease, the unamortized portion of the tenant's improvements and betterments will be covered.	X	
d. Pre-paid rent at the damaged location will not be covered.		X



## FORMS

3

Form Name	Form Number
Business Income (And Extra Expense) Coverage Form	CP 00 30 10 12
Leasehold Interest Coverage Form	CP 00 60 06 95

## 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.

- (2) 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.

### 3. Covered Causes Of Loss, Exclusions And Limitations

See applicable Causes Of Loss form as shown in the Declarations.

### 4. Additional Limitation – Interruption Of Computer Operations

- a. Coverage for Business Income does not apply when a "suspension" of "operations" is 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. 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.
- c. 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.
- d. 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.

## 5. Additional Coverages

### a. Civil Authority

In this Additional Coverage, Civil Authority, the described premises are premises to which this Coverage Form applies, as shown in the Declarations.

When a Covered Cause of Loss causes damage to property other than property at the described premises, we will pay for the actual loss of Business Income you sustain and necessary Extra Expense caused by action of civil authority that prohibits access to the described premises, provided that both of the following apply:

- (1) Access to the area immediately surrounding the damaged property is prohibited by civil authority as a result of the damage, and the described premises are within that area but are not more than one mile from the damaged property; and
- (2) The action of civil authority is taken in response to dangerous physical conditions resulting from the damage or continuation of the Covered Cause of Loss that caused the damage, or the action is taken to enable a civil authority to have unimpeded access to the damaged property.

Civil Authority Coverage for Business Income will begin 72 hours after the time of the first action of civil authority that prohibits access to the described premises and will apply for a period of up to four consecutive weeks from the date on which such coverage began.

Civil Authority Coverage for Extra Expense will begin immediately after the time of the first action of civil authority that prohibits access to the described premises and will end:

- (1) Four consecutive weeks after the date of that action; or
  - (2) When your Civil Authority Coverage for Business Income ends;
- whichever is later.

## **b. Alterations And New Buildings**

We will pay for the actual loss of Business Income you sustain and necessary Extra Expense you incur due to direct physical loss or damage at the described premises caused by or resulting from any Covered Cause of Loss to:

- (1) New buildings or structures, whether complete or under construction;
- (2) Alterations or additions to existing buildings or structures; and
- (3) Machinery, equipment, supplies or building materials located on or within 100 feet of the described premises and:
  - (a) Used in the construction, alterations or additions; or
  - (b) Incidental to the occupancy of new buildings.

If such direct physical loss or damage delays the start of "operations", the "period of restoration" for Business Income Coverage will begin on the date "operations" would have begun if the direct physical loss or damage had not occurred.

## **c. Extended Business Income**

### **(1) Business Income Other Than "Rental Value"**

If the necessary "suspension" of your "operations" produces a Business Income loss payable under this policy, we will pay for the actual loss of Business Income you incur during the period that:

- (a) Begins on the date property (except "finished stock") is actually repaired, rebuilt or replaced and "operations" are resumed; and
- (b) Ends on the earlier of:
  - (i) The date you could restore your "operations", with reasonable speed, to the level which would generate the business income amount that would have existed if no direct physical loss or damage had occurred; or
  - (ii) 60 consecutive days after the date determined in (1)(a) above.

However, Extended Business Income does not apply to loss of Business Income incurred as a result of unfavorable business conditions caused by the impact of the Covered Cause of Loss in the area where the described premises are located.

Loss of Business Income must be caused by direct physical loss or damage at the described premises caused by or resulting from any Covered Cause of Loss.

### **(2) "Rental Value"**

If the necessary "suspension" of your "operations" produces a "Rental Value" loss payable under this policy, we will pay for the actual loss of "Rental Value" you incur during the period that:

- (a) Begins on the date property is actually repaired, rebuilt or replaced and tenantability is restored; and
- (b) Ends on the earlier of:
  - (i) The date you could restore tenant occupancy, with reasonable speed, to the level which would generate the "Rental Value" that would have existed if no direct physical loss or damage had occurred; or
  - (ii) 60 consecutive days after the date determined in (2)(a) above.

However, Extended Business Income does not apply to loss of "Rental Value" incurred as a result of unfavorable business conditions caused by the impact of the Covered Cause of Loss in the area where the described premises are located.

Loss of "Rental Value" must be caused by direct physical loss or damage at the described premises caused by or resulting from any Covered Cause of Loss.

## **d. Interruption Of Computer Operations**

- (1) Under this Additional Coverage, electronic data has the meaning described under Additional Limitation – Interruption Of Computer Operations.

- (2) Subject to all provisions of this Additional Coverage, you may extend the insurance that applies to Business Income and Extra Expense to apply to a "suspension" of "operations" caused by an interruption in computer operations due to destruction or corruption of electronic data due to a Covered Cause of Loss. However, we will not provide coverage under this Additional Coverage when the Additional Limitation – Interruption Of Computer Operations – does not apply based on Paragraph A.4.d. therein.
- (3) With respect to the coverage provided under this Additional Coverage, the Covered Causes of Loss are subject to the following:
- (a) If the Causes Of Loss – Special Form applies, coverage under this Additional Coverage, Interruption Of Computer Operations, is limited to the "specified causes of loss" as defined in that form and Collapse as set forth in that form.
  - (b) If the Causes Of Loss – Broad Form applies, coverage under this Additional Coverage, Interruption Of Computer Operations, includes Collapse as set forth in that form.
  - (c) If the Causes Of Loss form is endorsed to add a Covered Cause of Loss, the additional Covered Cause of Loss does not apply to the coverage provided under this Additional Coverage, Interruption Of Computer Operations.
  - (d) The Covered Causes of Loss include a virus, harmful code or similar instruction introduced into or enacted on a computer system (including electronic data) or a network to which it is connected, designed to damage or destroy any part of the system or disrupt its normal operation. But there is no coverage for an interruption related to manipulation of a computer system (including electronic data) by any employee, including a temporary or leased employee, or by an entity retained by you or for you to inspect, design, install, maintain, repair or replace that system.
- (4) The most we will pay under this Additional Coverage, Interruption Of Computer Operations, is \$2,500 (unless a higher limit is shown in the Declarations) for all loss sustained and expense incurred in any one policy year, regardless of the number of interruptions or the number of premises, locations or computer systems involved. If loss payment relating to the first interruption does not exhaust this amount, then the balance is available for loss or expense sustained or incurred as a result of subsequent interruptions in that policy year. A balance remaining at the end of a policy year does not increase the amount of insurance in the next policy year. With respect to any interruption which begins in one policy year and continues or results in additional loss or expense in a subsequent policy year(s), all loss and expense is deemed to be sustained or incurred in the policy year in which the interruption began.
- (5) This Additional Coverage, Interruption Of Computer Operations, does not apply to loss sustained or expense incurred after the end of the "period of restoration", even if the amount of insurance stated in (4) above has not been exhausted.

## 6. Coverage Extension

If a Coinsurance percentage of 50% or more is shown in the Declarations, you may extend the insurance provided by this Coverage Part as follows:

### Newly Acquired Locations

- a. You may extend your Business Income and Extra Expense Coverages to apply to property at any location you acquire other than fairs or exhibitions.
- b. The most we will pay under this Extension, for the sum of Business Income loss and Extra Expense incurred, is \$100,000 at each location, unless a higher limit is shown in the Declarations.
- c. Insurance under this Extension for each newly acquired location will end when any of the following first occurs:
  - (1) This policy expires;

(2) 30 days expire after you acquire or begin to construct the property; or

(3) You report values to us.

We will charge you additional premium for values reported from the date you acquire the property.

The Additional Condition, Coinsurance, does not apply to this Extension.

## **B. Limits Of Insurance**

The most we will pay for loss in any one occurrence is the applicable Limit Of Insurance shown in the Declarations.

Payments under the following coverages will not increase the applicable Limit of Insurance:

1. Alterations And New Buildings;
2. Civil Authority;
3. Extra Expense; or
4. Extended Business Income.

The amounts of insurance stated in the Interruption Of Computer Operations Additional Coverage and the Newly Acquired Locations Coverage Extension apply in accordance with the terms of those coverages and are separate from the Limit(s) Of Insurance shown in the Declarations for any other coverage.

## **C. Loss Conditions**

The following conditions apply in addition to the Common Policy Conditions and the Commercial Property Conditions:

### **1. Appraisal**

If we and you disagree on the amount of Net Income and operating expense 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 amount of Net Income and operating expense or 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:

- a. Pay its chosen appraiser; and
- b. 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.

## **2. Duties In The Event Of Loss**

a. You must see that the following are done in the event of loss:

- (1) Notify the police if a law may have been broken.
- (2) Give us prompt notice of the direct physical 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 direct physical 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) 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.
- (6) Send us a signed, sworn proof of loss containing the information we request to investigate the claim. You must do this within 60 days after our request. We will supply you with the necessary forms.
- (7) Cooperate with us in the investigation or settlement of the claim.
- (8) If you intend to continue your business, you must resume all or part of your "operations" as quickly as possible.

b. 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.

### 3. Loss Determination

- a. The amount of Business Income loss will be determined based on:
  - (1) The Net Income of the business before the direct physical loss or damage occurred;
  - (2) The likely Net Income of the business if no physical loss or damage had occurred, but not including any Net Income that would likely have been earned as a result of an increase in the volume of business due to favorable business conditions caused by the impact of the Covered Cause of Loss on customers or on other businesses;
  - (3) The operating expenses, including payroll expenses, necessary to resume "operations" with the same quality of service that existed just before the direct physical loss or damage; and
  - (4) Other relevant sources of information, including:
    - (a) Your financial records and accounting procedures;
    - (b) Bills, invoices and other vouchers; and
    - (c) Deeds, liens or contracts.
- b. The amount of Extra Expense will be determined based on:
  - (1) All expenses that exceed the normal operating expenses that would have been incurred by "operations" during the "period of restoration" if no direct physical loss or damage had occurred. We will deduct from the total of such expenses:
    - (a) The salvage value that remains of any property bought for temporary use during the "period of restoration", once "operations" are resumed; and
    - (b) Any Extra Expense that is paid for by other insurance, except for insurance that is written subject to the same plan, terms, conditions and provisions as this insurance; and
  - (2) Necessary expenses that reduce the Business Income loss that otherwise would have been incurred.

### c. Resumption Of Operations

We will reduce the amount of your:

- (1) Business Income loss, other than Extra Expense, to the extent you can resume your "operations", in whole or in part, by using damaged or undamaged property (including merchandise or stock) at the described premises or elsewhere.
- (2) Extra Expense loss to the extent you can return "operations" to normal and discontinue such Extra Expense.
- d. If you do not resume "operations", or do not resume "operations" as quickly as possible, we will pay based on the length of time it would have taken to resume "operations" as quickly as possible.

### 4. Loss Payment

We will pay for covered loss within 30 days after we receive the sworn proof of loss, if you have complied with all of the terms of this Coverage Part, and:

- a. We have reached agreement with you on the amount of loss; or
- b. An appraisal award has been made.

### D. Additional Condition

#### COINSURANCE

If a Coinsurance percentage is shown in the Declarations, the following condition applies in addition to the Common Policy Conditions and the Commercial Property Conditions.

We will not pay the full amount of any Business Income loss if the Limit of Insurance for Business Income is less than:

- 1. The Coinsurance percentage shown for Business Income in the Declarations; times
- 2. The sum of:
  - a. The Net Income (Net Profit or Loss before income taxes), and
  - b. Operating expenses, including payroll expenses,

that would have been earned or incurred (had no loss occurred) by your "operations" at the described premises for the 12 months following the inception, or last previous anniversary date, of this policy (whichever is later).

Instead, we will determine the most we will pay using the following steps:

- Step (1): Multiply the Net Income and operating expense for the 12 months following the inception, or last previous anniversary date, of this policy by the Coinsurance percentage;
- Step (2): Divide the Limit of Insurance for the described premises by the figure determined in Step (1); and
- Step (3): Multiply the total amount of loss by the figure determined in Step (2).

We will pay the amount determined in Step (3) or the limit of insurance, whichever is less. For the remainder, you will either have to rely on other insurance or absorb the loss yourself.

In determining operating expenses for the purpose of applying the Coinsurance condition, the following expenses, if applicable, shall be deducted from the total of all operating expenses:

- (1) Prepaid freight – outgoing;
- (2) Returns and allowances;
- (3) Discounts;
- (4) Bad debts;
- (5) Collection expenses;
- (6) Cost of raw stock and factory supplies consumed (including transportation charges);
- (7) Cost of merchandise sold (including transportation charges);
- (8) Cost of other supplies consumed (including transportation charges);
- (9) Cost of services purchased from outsiders (not employees) to resell, that do not continue under contract;
- (10) Power, heat and refrigeration expenses that do not continue under contract (if Form **CP 15 11** is attached);
- (11) All payroll expenses or the amount of payroll expense excluded (if Form **CP 15 10** is attached); and
- (12) Special deductions for mining properties (royalties unless specifically included in coverage; actual depletion commonly known as unit or cost depletion – not percentage depletion; welfare and retirement fund charges based on tonnage; hired trucks).

### Example 1 (Underinsurance)

When: The Net Income and operating expenses for the 12 months following the inception, or last previous anniversary date, of this policy at the described premises would have been: \$ 400,000  
The Coinsurance percentage is: 50%  
The Limit of Insurance is: \$ 150,000  
The amount of loss is: \$ 80,000

Step (1):  $\$400,000 \times 50\% = \$200,000$   
(the minimum amount of insurance to meet your Coinsurance requirements)

Step (2):  $\$150,000 \div \$200,000 = .75$

Step (3):  $\$80,000 \times .75 = \$60,000$

We will pay no more than \$60,000. The remaining \$20,000 is not covered.

### Example 2 (Adequate Insurance)

When: The Net Income and operating expenses for the 12 months following the inception, or last previous anniversary date, of this policy at the described premises would have been: \$ 400,000  
The Coinsurance percentage is: 50%  
The Limit of Insurance is: \$ 200,000  
The amount of loss is: \$ 80,000

The minimum amount of insurance to meet your Coinsurance requirement is \$200,000 ( $\$400,000 \times 50\%$ ). Therefore, the Limit of Insurance in this example is adequate and no penalty applies. We will pay no more than \$80,000 (amount of loss).

This condition does not apply to Extra Expense Coverage.

### E. Optional Coverages

If shown as applicable in the Declarations, the following Optional Coverages apply separately to each item.

#### 1. Maximum Period Of Indemnity

- a. The Additional Condition, Coinsurance, does not apply to this Coverage Form at the described premises to which this Optional Coverage applies.



- b. The most we will pay for the total of Business Income loss and Extra Expense is the lesser of:

- (1) The amount of loss sustained and expenses incurred during the 120 days immediately following the beginning of the "period of restoration"; or
- (2) The Limit Of Insurance shown in the Declarations.

## 2. Monthly Limit Of Indemnity

- a. The Additional Condition, Coinsurance, does not apply to this Coverage Form at the described premises to which this Optional Coverage applies.
- b. The most we will pay for loss of Business Income in each period of 30 consecutive days after the beginning of the "period of restoration" is:
  - (1) The Limit of Insurance, multiplied by
  - (2) The fraction shown in the Declarations for this Optional Coverage.

### Example

When:	The Limit of Insurance is:	\$ 120,000
	The fraction shown in the Declarations for this Optional Coverage is:	1/4
	The most we will pay for loss in each period of 30 consecutive days is:	\$ 30,000
	(\$120,000 x 1/4 = \$30,000)	
	If, in this example, the actual amount of loss is:	
	Days 1–30:	\$ 40,000
	Days 31–60:	\$ 20,000
	Days 61–90:	\$ 30,000
		<u>\$ 90,000</u>
	We will pay:	
	Days 1–30:	\$ 30,000
	Days 31–60:	\$ 20,000
	Days 61–90:	\$ 30,000
		<u>\$ 80,000</u>

The remaining \$10,000 is not covered.

## 3. Business Income Agreed Value

- a. To activate this Optional Coverage:
  - (1) A Business Income Report/Work Sheet must be submitted to us and must show financial data for your "operations":
    - (a) During the 12 months prior to the date of the Work Sheet; and

- (b) Estimated for the 12 months immediately following the inception of this Optional Coverage.

- (2) The Declarations must indicate that the Business Income Agreed Value Optional Coverage applies, and an Agreed Value must be shown in the Declarations. The Agreed Value should be at least equal to:

- (a) The Coinsurance percentage shown in the Declarations; multiplied by
- (b) The amount of Net Income and operating expenses for the following 12 months you report on the Work Sheet.

- b. The Additional Condition, Coinsurance, is suspended until:

- (1) 12 months after the effective date of this Optional Coverage; or
- (2) The expiration date of this policy; whichever occurs first.

- c. We will reinstate the Additional Condition, Coinsurance, automatically if you do not submit a new Work Sheet and Agreed Value:

- (1) Within 12 months of the effective date of this Optional Coverage; or
- (2) When you request a change in your Business Income Limit of Insurance.

- d. If the Business Income Limit of Insurance is less than the Agreed Value, we will not pay more of any loss than the amount of loss multiplied by:

- (1) The Business Income Limit of Insurance; divided by
- (2) The Agreed Value.

### Example

When:	The Limit of Insurance is:	\$ 100,000
	The Agreed Value is:	\$ 200,000
	The amount of loss is:	\$ 80,000

Step (1):  $\$100,000 \div \$200,000 = .50$

Step (2):  $.50 \times \$80,000 = \$40,000$

We will pay \$40,000. The remaining \$40,000 is not covered.

## 4. Extended Period Of Indemnity

Under Paragraph A.5.c., **Extended Business Income**, the number 60 in Subparagraphs (1)(b) and (2)(b) is replaced by the number shown in the Declarations for this Optional Coverage.

## F. Definitions

1. "Finished stock" means stock you have manufactured.

"Finished stock" also includes whiskey and alcoholic products being aged, unless there is a Coinsurance percentage shown for Business Income in the Declarations.

"Finished stock" does not include stock you have manufactured that is held for sale on the premises of any retail outlet insured under this Coverage Part.

2. "Operations" means:
  - a. Your business activities occurring at the described premises; and
  - b. The tenantability of the described premises, if coverage for Business Income Including "Rental Value" or "Rental Value" applies.
3. "Period of restoration" means the period of time that:
  - a. Begins:
    - (1) 72 hours after the time of direct physical loss or damage for Business Income Coverage; or
    - (2) Immediately after the time of direct physical loss or damage for Extra Expense Coverage;  
caused by or resulting from any Covered Cause of Loss at the described premises; and
  - b. Ends on the earlier of:
    - (1) The date when the property at the described premises should be repaired, rebuilt or replaced with reasonable speed and similar quality; or
    - (2) The date when business is resumed at a new permanent location.

"Period of restoration" does not include any increased period required due to the enforcement of or compliance with any ordinance or law that:

- (1) Regulates the construction, use or repair, or requires the tearing down, of any property; or

- (2) Requires any insured or others to test for, monitor, clean up, remove, contain, treat, detoxify or neutralize, or in any way respond to, or assess the effects of "pollutants".

The expiration date of this policy will not cut short the "period of restoration".

4. "Pollutants" means any solid, liquid, gaseous or thermal irritant or contaminant, including smoke, vapor, soot, fumes, acids, alkalis, chemicals and waste. Waste includes materials to be recycled, reconditioned or reclaimed.
5. "Rental Value" means Business Income that consists of:
  - a. Net Income (Net Profit or Loss before income taxes) that would have been earned or incurred as rental income from tenant occupancy of the premises described in the Declarations as furnished and equipped by you, including fair rental value of any portion of the described premises which is occupied by you; and
  - b. Continuing normal operating expenses incurred in connection with that premises, including:
    - (1) Payroll; and
    - (2) The amount of charges which are the legal obligation of the tenant(s) but would otherwise be your obligations.
6. "Suspension" means:
  - a. The slowdown or cessation of your business activities; or
  - b. That a part or all of the described premises is rendered untenable, if coverage for Business Income Including "Rental Value" or "Rental Value" applies.

# LEASEHOLD INTEREST COVERAGE FORM

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.

3

## A. COVERAGE

We will pay for loss of Covered Leasehold Interest you sustain due to the cancellation of your lease. The cancellation must result from direct physical loss of or damage to property at the premises described in the Declarations caused by or resulting from any Covered Cause of Loss.

### 1. Covered Leasehold Interest

Covered Leasehold Interest means the following for which an amount of "net leasehold interest" at inception is shown in the Leasehold Interest Coverage Schedule:

a. **Tenants' Lease Interest**, meaning the difference between the:

- (1) Rent you pay at the described premises; and
- (2) Rental value of the described premises that you lease.

b. **Bonus Payments**, meaning the unamortized portion of a cash bonus that will not be refunded to you. A cash bonus is money you paid to acquire your lease. It does not include:

- (1) Rent, whether or not prepaid; or
- (2) Security.

c. **Improvements and Betterments**, meaning the unamortized portion of payments made by you for improvements and betterments. It does not include the value of improvements and betterments recoverable under any other insurance, but only to the extent of such other insurance.

Improvements and betterments are fixtures, alterations, installations or additions:

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

- (2) You acquired or made at your expense but cannot legally remove.

d. **Prepaid Rent**, meaning the unamortized portion of any amount of advance rent you paid that will not be refunded to you. This does not include the customary rent due at:

- (1) The beginning of each month; or
- (2) Any other rental period.

### 2. Covered Causes Of Loss

See applicable Causes of Loss Form as shown in the Declarations.

## B. EXCLUSIONS AND LIMITATIONS

See applicable Causes of Loss Form as shown in the Declarations.

## C. LIMITS OF INSURANCE

### 1. Applicable to Tenants' Lease Interest

a. The most we will pay for loss because of the cancellation of any one lease is your "net leasehold interest" at the time of loss.

But, if your lease is cancelled and your landlord lets you continue to use your premises under a new lease or other arrangement, the most we will pay for loss because of the cancellation of any one lease is the lesser of:

- (1) The difference between the rent you now pay and the rent you will pay under the new lease or other arrangement; or
- (2) Your "net leasehold interest" at the time of loss.

- b. Your "net leasehold interest" decreases automatically each month. The amount of "net leasehold interest" at any time is your "gross leasehold interest" times the leasehold interest factor for the remaining months of your lease. A proportionate share applies for any period of time less than a month.

Refer to the end of this form for a table of leasehold interest factors.

## **2. Applicable to Bonus Payments, Improvements and Betterments and Prepaid Rent**

- a. The most we will pay for loss because of the cancellation of any one lease is your "net leasehold interest" at the time of loss.
- But, if your lease is cancelled and your landlord lets you continue to use your premises under a new lease or other arrangement, the most we will pay for loss because of the cancellation of any one lease is the lesser of:
- (1) The loss sustained by you; or
  - (2) Your "net leasehold interest" at the time of loss.
- b. Your "net leasehold interest" decreases automatically each month. The amount of each decrease is your "monthly leasehold interest". A proportionate share applies for any period of time less than a month.

## **D. LOSS CONDITIONS**

The following conditions apply in addition to the Common Policy Conditions and the Commercial Property Conditions.

### **1. Appraisal**

If we and you disagree on the amount of loss, either may make written demand for an appraisal. 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 the 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:

- a. Pay its chosen appraiser; and
- b. 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.

## **2. Duties In The Event Of Loss Of Covered Leasehold Interest**

- a. You must see that the following are done in the event of loss of Covered Leasehold Interest:

- (1) Notify the police if a law may have been broken.
- (2) Give us prompt notice of the direct physical 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 direct physical loss or damage occurred.
- (4) Take all reasonable steps to protect the property at the described premises from further damage by a Covered Cause of Loss. 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) 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.

- (6) Send us a signed, sworn proof of loss containing the information we request to investigate the claim. You must do this within 60 days after our request. We will supply you with the necessary forms.
  - (7) Cooperate with us in the investigation or settlement of the claim.
- b. 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.

### 3. Loss Payment

We will pay for covered loss within 30 days after we receive the sworn proof of loss, if:

- a. You have complied with all of the terms of this Coverage Part; and
- b.(1) We have reached agreement with you on the amount of loss; or
- (2) An appraisal award has been made.

### 4. Vacancy

#### a. Description of Terms

- (1) As used in this Vacancy Condition, with respect to the tenant's interest in Covered Property, building means the unit or suite rented or leased to the tenant. Such building is vacant when it does not contain enough business personal property to conduct customary operations.
- (2) Buildings under construction or renovation are not considered vacant.

#### b. Vacancy Provisions – Subleased Premises

The following provisions apply if the building where direct physical loss or damage occurs has been vacant for more than 60 consecutive days before that loss or damage occurs, provided you have entered into an agreement to sublease the described premises as of the time of loss or damage:

- (1) We will not pay for any loss or damage caused by any of the following even if they are Covered Causes of Loss:
  - (a) Vandalism;
  - (b) Sprinkler leakage, unless you have protected the system against freezing;
  - (c) Building glass breakage;
  - (d) Water damage;
  - (e) Theft; or
  - (f) Attempted theft.
- (2) With respect to a Covered Cause of Loss not listed in (1)(a) through (1)(f) above, we will reduce the amount we would otherwise pay for the loss or damage by 15%.
- c. If you have not entered into an agreement to sublease the described premises as of the time of loss or damage, we will not pay for any loss of Covered Leasehold Interest.

### E. ADDITIONAL CONDITION

The following condition replaces the Cancellation Common Policy Condition:

#### CANCELLATION

- 1. The first Named Insured shown in the Declarations may cancel this policy by mailing or delivering to us advance 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 will end on that date.
- 5. If this policy is cancelled, we will send the first Named Insured any premium refund due. The cancellation will be effective even if we have not made or offered a refund.
- 6. If this coverage is cancelled, we will calculate the earned premium by:
  - a. Computing the average of the "net leasehold interest" at the:
    - (1) Inception date, and
    - (2) Cancellation date, of this coverage.
  - b. Multiplying the rate for the period of coverage by the average "net leasehold interest".
  - c. If we cancel, we will send you a premium refund based on the difference between the:
    - (1) Premium you originally paid us; and
    - (2) Proportion of the premium calculated by multiplying the amount in paragraph a. times the rate for the period of coverage for the expired term of the policy.
  - d. If you cancel, your refund may be less than the refund calculated in paragraph c.
- 7. If notice is mailed, proof of mailing will be sufficient proof of notice.

## F. DEFINITIONS

1. **"Gross Leasehold Interest"** means the difference between the:

- a. Monthly rental value of the premises you lease; and
- b. Actual monthly rent you pay including taxes, insurance, janitorial or other service that you pay for as part of the rent.

This amount is not changed:

- (1) Whether you occupy all or part of the premises; or
- (2) If you sublet the premises.

**Example:**

Rental value of your leased premises	\$5,000
Monthly rent including taxes, insurance, janitorial or other service that you pay for as part of the rent	<u>-4,000</u>
"Gross Leasehold Interest"	\$1,000

2. **"Monthly Leasehold Interest"** means the monthly portion of covered Bonus Payments, Improvements and Betterments and Prepaid Rent. To find your "monthly leasehold interest", divide your original costs of Bonus Payments, Improvements and Betterments or Prepaid Rent by the number of months left in your lease at the time of the expenditure.

**Example:**

Original cost of Bonus Payment	\$12,000
With 24 months left in the lease at time of Bonus Payment	$\div \underline{24}$
"Monthly Leasehold Interest"	\$500

## 3. "Net Leasehold Interest":

- a. Applicable to Tenants' Lease Interest.

**"Net Leasehold Interest"** means the present value of your "gross leasehold interest" for each remaining month of the term of the lease at the rate of interest shown in the Leasehold Interest Coverage Schedule.

The "net leasehold interest" is the amount that, placed at the rate of interest shown in the Leasehold Interest Coverage Schedule, would be equivalent to your receiving the "Gross Leasehold Interest" for each separate month of the unexpired term of the lease.

To find your "net leasehold interest" at any time, multiply your "gross leasehold interest" by the leasehold interest factor found in the table of leasehold interest factors attached to this form.

**Example:**

(20 months left in lease, 10% effective annual rate of interest)

"Gross Leasehold Interest"	\$ 1,000
Leasehold Interest Factor	$\times \underline{18.419}$
"Net Leasehold Interest"	\$18,419

- b. Applicable to Bonus Payments, Improvements and Betterments or Prepaid Rent.

**"Net Leasehold Interest"** means the unamortized amount shown in the Schedule. Your "net leasehold interest" at any time is your "monthly leasehold interest" times the number of months left in your lease.

**Example:**

"Monthly Leasehold Interest"	\$ 500
With 10 months left in lease	$\times \underline{10}$
"Net Leasehold Interest"	\$5,000

