



L E A R N I N G G U I D E



RISK & INSURANCE
EDUCATION ALLIANCE

Commercial Property

THE CERTIFIED INSURANCE COUNSELOR PROGRAM

Agency Management

Commercial Casualty

Commercial Multiline

Commercial Property

Insurance Company Operations

Life & Health

Personal Lines

Risk & Insurance Education Alliance

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P.O. Box 27027

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Telephones: 512.345.7932

800.633.2165

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

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A Letter from William J. Hold, President/CEO

I trust this Learning Guide finds you well and eager to embark on a transformative journey with our esteemed risk management and insurance courses. As the President of Risk & Insurance Education Alliance, it is both an honor and a privilege to welcome you to this unparalleled learning experience.

In our ever-evolving world, the importance of risk management and insurance cannot be overstated. This industry is the backbone of organizational resilience, ensuring that businesses and individuals can navigate the complexities of today's dynamic landscape. I commend you for recognizing the significance of this expertise and taking the initiative to invest in your professional development.

At Risk & Insurance Education Alliance, our philosophy revolves around the belief that every individual has untapped potential waiting to be realized. This course is not just about acquiring knowledge; it is a platform for you to own your potential. We are here to guide, support, and empower you to discover the depths of your capabilities, enabling you to excel in the realm of risk management and insurance.

As committed professionals, you are not merely participants in a course; you are integral members of a community dedicated to excellence. Our team of expert instructors, industry practitioners, and support staff are equally committed to your success. Throughout the program, you will benefit from their wealth of experience and knowledge, gaining insights that extend beyond textbooks to real-world applications.

"Own Your Potential" encapsulates the ethos of our educational approach. It encourages you to take charge of your learning journey, embrace challenges as opportunities, and emerge as a confident and proficient risk management and insurance practitioner.

As you embark on this course, remember that your commitment to professionalism sets you apart. The skills and insights you gain here will not only elevate your individual career but contribute to the advancement of the entire profession.

I am confident that, armed with the knowledge and skills imparted in this course, you will become a committed professional who not only understands the intricacies of risk management and insurance but also actively shapes the future of these industries.

I look forward to witnessing your growth, learning, and success in the coming weeks. The journey ahead is both challenging and rewarding, and I encourage you to embrace it with enthusiasm and dedication.

Best wishes for a fulfilling and transformative learning experience.

Sincerely,

A handwritten signature in black ink, appearing to read "W. J. Hold", with a stylized flourish at the end.

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

To the Participant

Welcome to the CIC Commercial Property course, part of the Certified Insurance Counselor (CIC) designation program. This program will provide you with the core knowledge and tools you need in your work as a highly trained insurance counselor.

A Certified Insurance Counselor is recognized as someone knowledgeable in all areas of insurance. As a participant in Risk & Insurance Education Alliance (RIEA) program of study, it is expected that you will not only gain knowledge that will give you greater success in your work, but that you will be challenged to make integrity, innovation, inspiration, and imagination part of your daily practice.

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

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

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

Program Overview

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

Section 1: Commercial Property Coverage Forms and Endorsements

Section Goal

In this section, participants will analyze the components of the ISO Commercial Property Policy, evaluate the three methods of insuring commercial property (specific, scheduled, and blanket coverage), and examine the Building And Personal Property Coverage Form in depth. Participants will also gain a greater understanding of how coverage can be modified through endorsement.

Learning Objectives:

Part 1: The Commercial Property Policy

- 1.1 *Explain the five rights and duties of the first Named Insured.*
- 1.2 *Apply the coinsurance formula to calculate a commercial property loss settlement.*
- 1.3 *Explain the application of the Transfer Of Rights Of Recovery Against Others To Us condition.*

Part 2: The Building And Personal Property Coverage Form, A (1-3) and Methods of Writing Commercial Property Insurance

- 1.4 *Distinguish between Covered Property (including Building, Your Business Personal Property, and Personal Property of Others) and Property Not Covered, as defined by the Building And Personal Property Coverage Form.*
- 1.5 *Given a scenario, recommend endorsements that modify the definitions of Building and Your Business Personal Property.*
- 1.6 *Compare and contrast the three methods of writing commercial property insurance, and evaluate the advantages and disadvantages/considerations of writing a policy on a blanket basis.*
- 1.7 *Given a scenario, detail how relevant endorsements will handle fluctuating values, including any reporting provisions.*

Part 3: The Building And Personal Property Coverage Form, A(4)-D

- 1.8 *Apply the six Additional Coverages in the Building And Personal Property Coverage Form to explain how coverage applies in the event of a loss.*
- 1.9 *Identify relevant endorsements and describe how they modify the six Additional Coverages in the Building And Personal Property Coverage Form.*
- 1.10 *Apply the seven Coverage Extensions in the Building And Personal Property Coverage Form to explain how coverage applies in the event of a loss.*

- 1.11 *Identify relevant endorsements and describe how they modify the seven Coverage Extensions in the Building And Personal Property Coverage Form.*
- 1.12 *Apply the Limits of Insurance and Deductibles in the Building And Personal Property Coverage Form to explain how the policy will respond in the event of loss or damage.*
- 1.13 *Describe how endorsements can modify the Limits of Insurance and Deductibles in the Building And Personal Property Coverage Form.*

Part 4: The Building And Personal Property Coverage Form, E-H and Additional Coverage Forms

- 1.14 *Apply the seven Loss Conditions in the Building And Personal Property Coverage Form to explain how the policy will respond in the event of loss or damage.*
- 1.15 *Identify relevant endorsements and describe how they modify the seven Loss Conditions in the Building And Personal Property Coverage Form.*
- 1.16 *Explain the purpose of the four Optional Coverages and how these coverages apply when activated on the Declarations of the Building And Personal Property Coverage Form.*

Section 2: Commercial Property Causes of Loss and 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. Attention is also focused on how coverage may be modified by the use of endorsements.

Learning Objectives:

- 2.1 *Apply Causes Of Loss – Special Form exclusions to a claims situation and determine whether coverage applies.*
- 2.2 *Describe how endorsements can modify coverage in the Causes Of Loss – Special Form.*
- 2.3 *Apply the Causes Of Loss – Special Form Limitations to a claims situation and determine whether coverage applies.*
- 2.4 *Describe how endorsements can modify coverage Limitations in the Causes Of Loss – Special Form.*
- 2.5 *Apply the Additional Coverages and Additional Coverage Extensions in the Causes Of Loss – Special Form to a claims situation and determine whether coverage applies.*

Section 3: Time Element Coverages and Endorsements

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 through endorsement.

Learning Objectives:

Part 1

- 3.1 *Define key terms from the Business Income (And Extra Expense) Coverage Form, and describe the elements needed to trigger business income and/or extra expense coverage.*
- 3.2 *Identify endorsements that are relevant to specific exposures, and understand how they can modify the Business Income (And Extra Expense) Coverage Form.*
- 3.3 *Describe relevant exclusions and limitations, including:*
 - *the five Special Exclusions contained in the Causes Of Loss – Special Form*
 - *the Additional Limitation – Interruption of Computer Operations from the Business Income (And Extra Expense) Coverage Form*
- 3.4 *Identify and describe the endorsements that can provide coverage for causes of loss that would otherwise be excluded or limited.*
- 3.5 *Apply the four Additional Coverages and the one Coverage Extension for Newly Acquired Locations to explain how the Business Income (And Extra Expense) Coverage Form provides coverage in the event of a loss.*
- 3.6 *Identify endorsements that are relevant to specific exposures, and understand how they can modify the Additional Coverages and/or Coverage Extension in the Business Income (And Extra Expense) Coverage Form.*

Part 2

- 3.7 *Describe how the four Loss Conditions apply to the amount of loss payment.*
- 3.8 *Identify and describe endorsements that can modify the Loss Conditions in the Business Income (And Extra Expense) Coverage Form.*
- 3.9 *Explain how the coinsurance formula for Business Income differs from the coinsurance formula for commercial property insurance, including:*
 - *factors that should be used to determine the appropriate Limit of Insurance,*
 - *the coinsurance percentage, and*
 - *methods used to avoid a coinsurance penalty.*
- 3.10 *Apply the coinsurance formula to calculate a business income loss settlement.*
- 3.11 *Apply the four Optional Coverages in the Business Income (And Extra Expense) Coverage Form to determine how claims are settled.*

- 3.12 *Describe how extra expenses are paid to reduce loss under the Business Income (Without Extra Expense) Coverage Form compared to the Business Income (And Extra Expense) Coverage Form.*
- 3.13 *Given a scenario, determine the amount paid for Extra Expense under the Extra Expense Coverage Form.*
- 3.14 *Identify and describe endorsements that can modify the Extra Expense Coverage Form.*
- 3.15 *Describe the four Covered Leasehold Interests outlined in the Leasehold Interest Coverage Form, and explain how coverage is triggered.*

How to Use This Learning Guide

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

Each section in this Learning Guide shares the same features.

A title identifies each section.

The section's primary purpose is summarized in the Section Goal.

Section text supports specific Learning Objectives.

Important terms are boldfaced the first time they are used. The terms also appear in the Glossary of Terms.

Section 2: Commercial Property Causes of Loss and 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. Attention is also focused on how coverage may be modified by the use of endorsements.


Learning Objectives:

- 2.1 Apply Causes of Loss—Special Form exclusions to a claims situation and determine whether coverage applies.
- 2.2 Describe how endorsements can modify coverage in the Causes of Loss—Special Form.
- 2.3 Apply the Causes of Loss—Special Form Limitations to a claims situation and determine whether coverage applies.

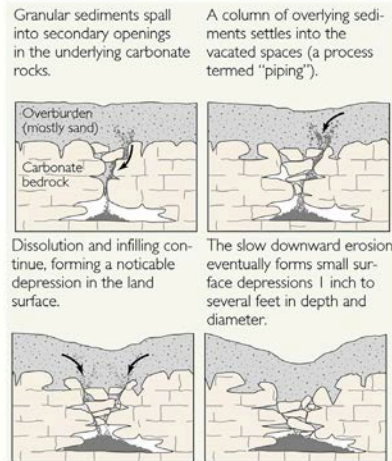
Named Insureds and Insurable Interest

One important issue that can arise during a claim is whether the Named Insured has an **insurable interest** in the property. Individuals cannot simply purchase insurance for any property—they must have a reason for doing so.

There are four primary areas of insurable interest:



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



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

Each section concludes with a summary.

Part 1: Summary

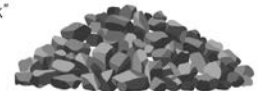
An ISO Commercial Property Policy is built using a modular approach, containing the following components:

- Common Policy Declarations
- Common Policy Conditions
- Commercial Property Coverage Part Declarations
- Commercial Property Conditions
- Commercial Property Coverage Form(s)
- Commercial Property Causes of Loss Form(s)
- Endorsements

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



The insured operates a large stone quarry. Their "stock" consists of large amounts of stone aggregate used for making concrete, which is loose and in the open. The stone is constantly exposed to the elements and faces very little risk from a Covered Cause of Loss.



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

Check-In



Directions: Indicate whether each of the following statements is true or false.

1. According to the Common Policy Conditions, any Named Insured is authorized to cancel the policy or make changes, with the consent of the insurer.

True

False

2. The insurance company is authorized to examine the insured's books and records even after the policy period has concluded.

True

False

Knowledge Check



Directions: Answer the following questions.

1. If the Named Insured has a building valued at \$1,000,000 and 80% is indicated on the Declarations for coinsurance, what is the minimum limit of insurance needed to avoid a coinsurance penalty?

2. The Named Insured from the scenario above has a \$600,000 limit of insurance and suffers a property loss with damage totaling \$100,000. If the building is valued at \$1,000,000 at the time of the loss and the policy has a \$10,000 deductible, how much will the Named Insured receive in the settlement?

Additional icons are used throughout the Learning Guide to highlight important information.



Alert icons point out important information that insurance professionals need to be aware of.



Form icons signal language that describes coverage provided by specific endorsements or policy forms.



Think About It icons add thought-provoking questions about the course material. Note that these are open-ended questions that do not necessarily have a single right or wrong answer.

Section 1: Commercial Property Coverage Forms and Endorsements

Section Goal

In this section, participants will analyze the components of the ISO Commercial Property Policy, evaluate the three methods of insuring commercial property (specific, scheduled, and blanket coverage), and examine the Building And Personal Property Coverage Form in depth. Participants will also gain a greater understanding of how coverage can be modified through endorsement.

Due to its length, Section 1 has been broken into four parts (Parts 1–4). There is a summary at the end of each part as well as a self-quiz to reinforce key concepts and enhance learning.

Learning Objectives:

Part 1: The Commercial Property Policy

- 1.1 *Explain the five rights and duties of the first Named Insured.*
- 1.2 *Apply the coinsurance formula to calculate a commercial property loss settlement.*
- 1.3 *Explain the application of the Transfer Of Rights Of Recovery Against Others To Us condition.*

Part 2: The Building And Personal Property Coverage Form, A (1–3) and Methods of Writing Commercial Property Insurance

- 1.4 *Distinguish between Covered Property (including Building, Your Business Personal Property, and Personal Property of Others) and Property Not Covered, as defined by the Building And Personal Property Coverage Form.*
- 1.5 *Given a scenario, recommend endorsements that modify the definitions of Building and Your Business Personal Property.*
- 1.6 *Compare and contrast the three methods of writing commercial property insurance, and evaluate the advantages and disadvantages/considerations of writing a policy on a blanket basis.*
- 1.7 *Given a scenario, detail how relevant endorsements will handle fluctuating values, including any reporting provisions.*

Part 3: The Building And Personal Property Coverage Form, A(4)-D

- 1.8 *Apply the six Additional Coverages in the Building And Personal Property Coverage Form to explain how coverage applies in the event of a loss.*
- 1.9 *Identify relevant endorsements and describe how they modify the six Additional Coverages in the Building And Personal Property Coverage Form.*
- 1.10 *Apply the seven Coverage Extensions in the Building And Personal Property Coverage Form to explain how coverage applies in the event of a loss.*
- 1.11 *Identify relevant endorsements and describe how they modify the seven Coverage Extensions in the Building And Personal Property Coverage Form.*
- 1.12 *Apply the Limits of Insurance and Deductibles in the Building And Personal Property Coverage Form to explain how the policy will respond in the event of loss or damage.*
- 1.13 *Describe how endorsements can modify the Limits of Insurance and Deductibles in the Building And Personal Property Coverage Form.*

Part 4: The Building And Personal Property Coverage Form, E-H and Additional Coverage Forms

- 1.14 *Apply the seven Loss Conditions in the Building And Personal Property Coverage Form to explain how the policy will respond in the event of loss or damage.*
- 1.15 *Identify relevant endorsements and describe how they modify the seven Loss Conditions in the Building And Personal Property Coverage Form.*
- 1.16 *Explain the purpose of the four Optional Coverages and how these coverages apply when activated on the Declarations of the Building And Personal Property Coverage Form.*

Part 1: The Commercial Property Policy

Structure of a Commercial Property Policy

Components of a Commercial Property Policy

In 1985, ISO introduced the Simplification Program, in which policies are built using a modular approach. This section will examine the components of the Commercial Property Policy (CPP), which consists of the Common Policy Declarations, Common Policy Conditions, Commercial Property Coverage Part Declarations, Commercial Property Conditions, Commercial Property Coverage Forms, Commercial Property Causes Of Loss forms, and Endorsements, as indicated in the following graphic.

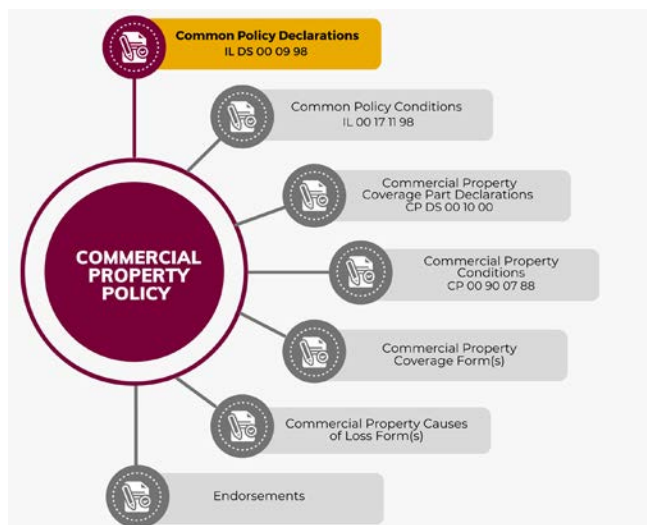


An ISO endorsement that has an “IL” prefix is *interline* and can apply to more than one line of business. ISO endorsements with a CP prefix are specific to the Commercial Property Policy.

Common Policy Declarations (IL DS 00 09 08)

The Common Policy Declarations consist of the following parts:

- Named Insured
- Mailing Address
- Policy Period
- Business Description
- Premium for Coverage Parts
- Forms Applicable



Alert

It should be noted that the policy Declarations refer to the mailing address, rather than the location of the property. Insureds, especially those with multiple locations in different time zones, should exercise caution when differentiating between mailing address and location of properties, as coverage begins and ends at 12:01 AM in the time zone of the mailing address.

Common Policy Conditions (IL 00 17 11 98)

Learning Objective:

- 1.1 Explain the five rights and duties of the first Named Insured.

The provisions of this form are common to all coverage parts. Some of the Common Policy Conditions outline specific rights and responsibilities of the first Named Insured that do not apply to other insureds. Other conditions may reference rights of the insurer. Each Common Policy Condition is included below, followed by further explanation.



A. Cancellation

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.

The first **Named Insured** is the only person or entity who is authorized to cancel the policy and to receive notice of cancellation. This means that when multiple insureds are named on the Declarations, only the first Named Insured will be authorized to cancel the policy or receive notice of cancellation.



Note on Endorsements: Nearly every state has an endorsement for cancellation that modifies this provision. An insurer can add a

notice of cancellation/non-renewal endorsement that will notify other parties if the policy is going to be canceled or non-renewed. For example, a notice of cancellation provision may obligate the insurer to provide advance written notice to a Certificate Holder if an insurance policy is canceled or not renewed. The most commonly required cancellation notice period is 30 days (except for nonpayment of premium) though, in some cases, up to 60 days may be required.

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.

The first Named Insured is also the only person who is authorized to request changes to the terms of the policy. All change requests are subject to the carrier's consent.



Alert

The first Named Insured is often a corporation or legal entity that must have other persons act on its behalf. After all, a corporation cannot make a phone call or send an email. This means that someone within the organization will need to be authorized to make contractual changes on behalf of the legal entity.

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.

is not unheard of for an insurance company to decide to audit a client during the third year following the end of the policy period, even if they have not conducted an audit for the previous two years.

Many insurance agents and insureds are unaware that the insurance company has the right to review books and records for up to three years following the policy period. It

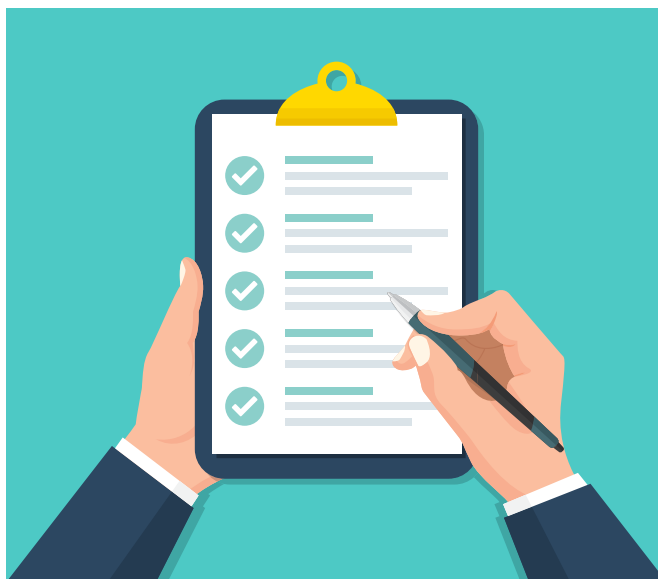
D. Inspections And Surveys

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.

This condition gives the insurance carrier the right to conduct inspections at any time. It should be noted that surveys and inspections are conducted to determine insurability, eligibility, and premium pricing. As such, inspections conducted by the insurance company do not ensure that conditions are safe or that the insured is in compliance with laws and regulations.

The insurer also has the right to opt not to conduct inspections or surveys and is also not required to make reports or recommendations to the Named Insured.



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.

The first Named Insured is responsible for the payment of all premiums and is also the only person or entity who can receive return premiums.

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.

Insurance policies are non-transferable except in the case of the death of an individual Named Insured. This means that if a company is sold, the insurance policy cannot be transferred to the new owner.

Summary of the Five Rights and Duties of the First Named Insured



Several of the conditions listed above give the first Named Insured rights and duties that are not granted to nor imposed upon other insureds named on the policy, as summarized by the graphic.

The first Named Insured is the only person or legal entity authorized to cancel a policy and to receive notice of cancellation. Only the first Named Insured can make changes to the policy, with the consent of the insurer. The first Named Insured will be responsible for the payment of all policy premiums and will be the payee if any premiums are returned.

Check-In



Directions: Indicate whether each of the following statements is true or false.

1. According to the Common Policy Conditions, any Named Insured is authorized to cancel the policy or make changes, with the consent of the insurer.

True

False

2. The insurance company is authorized to examine the insured's books and records even after the policy period has concluded.

True

False

3. The insurance company is required to conduct safety inspections and confirm that the insured is adhering to all laws, regulations, and codes.

True

False

4. Any return premiums will be divided evenly among all Named Insureds.

True

False

5. The rights and duties outlined in the insurance policy cannot be transferred to another party, except in the case of the death of an individual Named Insured.

True

False

Commercial Property Declarations CP DS 00 10 00

COMMERCIAL PROPERTY
CP DS 00 10 00

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.	Agreed Value		Replacement Cost (X)			
		Expiration Date	Cov.	Amount	Building	Pers. Prop.	Including "Stock"

Inflation Guard (%)	*Monthly Limit Of Indemnity (Fraction)	Maximum Period Of Indemnity (X)	*Extended Period Of Indemnity (Days)
Bldg. Pers. Prop.			

*Applies to Business Income Only

MORTGAGEHOLDERS

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

DEDUCTIBLE

\$500. Exceptions:

FORMS APPLICABLE

To All Coverages:

To Specific Premises/Coverages:

Prem. No.	Bldg. No.	Coverages	Form Number

Section 1: Commercial Property Coverage Forms and Endorsements

The Commercial Property Coverage Part Declarations include the effective date, the Named Insured, and the Description of Premises.

Named Insureds and Insurable Interest

One important issue that can arise during a claim is whether the Named Insured has an **insurable interest** in the property. Individuals cannot simply purchase insurance for any property—they must have a reason for doing so.

There are four primary areas of insurable interest:

- Ownership—when the Named Insured is the owner of the insured property.
- Contractual requirement to carry insurance—an example of this is when a landlord requires a tenant to carry insurance on the building.
- Bailment—having a legal responsibility for property belonging to another person or entity can create insurable interest. Examples of bailments include parking garages, dry cleaners, or repair shops.
- Factual expectation—a strong expectation of an occurrence that will result in insurable interest, for example, if a son has a factual expectation to one day inherit his father's business. He has an insurable interest in the property, even though he currently does not have an ownership interest.



*Think About It**

In your day-to-day practice, do you verify the insurable interest of the Named Insured?

If so, what measures do you take to determine whether the Named Insured has an insurable interest in the property?

**This is a reflection question—there are no right or wrong answers.*

Insurable interest regarding ownership can be verified using electronic records from the county assessor's office. Verification of insurable interest is an important step to take, as it can prevent an insured from having a claim denied in the future.

Description of Premises

The Description of Premises includes the number of the premises, the number of the building, the location, the construction, and the occupancy.

Other Items

The Declarations also show other items, such as the Coverages Provided and Optional Coverages, if activated. For ease of understanding, these items will be examined in greater detail in the discussion of the Building And Personal Property Coverage Form, which is presented later in this section. The more immediate concern is to address one of the items found in the Other Coverages section: coinsurance.

Learning Objective:

1.2 Apply the coinsurance formula to calculate a commercial property loss settlement.

Coinsurance

Coinsurance can be described as a rating and underwriting concept that is designed to encourage an insured to purchase an amount of insurance *equal to the full value* of the property being insured. When insurance is carried in the amount required by the coinsurance percentage, usually 80% of the value or more, the insurance company pays the entire loss, not to exceed the limit of insurance. Thus, if the limit of insurance is adequate to comply with this provision, *no penalty applies*.

If the amount carried is *less* than the amount required, then the Named Insured is considered underinsured and a *penalty may apply*.



The insurance amount required is the value of the covered property for the valuation chosen (actual cash value or replacement cost) *at the time of the loss* multiplied by the coinsurance percentage shown on the Declarations.



A property valued at \$250,000 at the time of a loss with an 80% coinsurance requirement would need to have a limit of insurance of at least \$200,000 to be in compliance with the coinsurance requirement.

Industry studies have shown that as many as 75% of commercial buildings are underinsured.¹

¹ Kevin Kuntz and Elizabeth Casas Leano, "Three attributes of commercial properties that underwriters shouldn't take for granted," *Versik*, August 20, 2020, <https://www.verisk.com/insurance/visualize/three-attributes-of-commercial-properties-that-underwriters-shouldnt-take-for-granted/>



Best Practice

When writing policies, it is important to anticipate what the value of the property will be 12 months in the future, because the coinsurance penalty will be calculated *at the time of the loss*. This means that if the limit of insurance is calculated based on the value of the property at the start of the policy, the insured could face a coinsurance penalty if the value has increased by the time of the loss.

The following formula is used to determine the loss settlement amount for properties subject to the coinsurance provision. (This is sometimes referred to as Did/Should x Loss).

$$\frac{\text{AMOUNT CARRIED (Did)}}{\text{AMOUNT REQUIRED (Should)}} \times \text{LOSS} = \text{Recovery minus deductible equals settlement}$$

The following example illustrates how the formula is applied.

Table: 1.1



Example of Inadequate Limits (Underinsurance)	
Building Value (Determined <i>at the time of loss</i>)	\$ 100,000
Deductible	\$ 1,000
Insurance Amount Carried	\$ 40,000
Coinsurance clause (from the Declarations)	80%
Insurance Amount Required (\$100,000 x 80%)	\$ 80,000
A loss occurs and the building damage is \$10,000 .	
$\frac{\$40,000 \text{ (Did)}}{\$80,000 \text{ (Should)}} \times \$10,000 \text{ (Loss Amount)} = \$5,000 \text{ minus } \$1,000 \text{ (deductible) equals } \$4,000$	
The settlement is \$4,000 .	

Section 1: Commercial Property Coverage Forms and Endorsements

In this example, because the Named Insured carried a limit of insurance that was 50% of what was required, they incurred a coinsurance penalty, and only 50% of the \$10,000 loss is paid minus any existing deductible (\$1,000 in this case). Had they carried the required amount of insurance—in this case, \$80,000—they would have received a settlement of \$9,000 (the full \$10,000 loss amount minus a \$1,000 deductible) as opposed to the \$4,000 that they received with a limit of insurance of only \$40,000.

▶▶ Knowledge Check



Directions: Answer the following questions.

1. If the Named Insured has a building valued at \$1,000,000 and 80% is indicated on the Declarations for coinsurance, what is the minimum limit of insurance needed to avoid a coinsurance penalty?

2. The Named Insured from the scenario above has a \$600,000 limit of insurance and suffers a property loss with damage totaling \$100,000. If the building is valued at \$1,000,000 at the time of the loss and the policy has a \$10,000 deductible, how much will the Named Insured receive in the settlement?

Optional Coverages

*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		Replacement Cost (X)		
			Cov.	Amount	Building	Pers. Prop.	Including "Stock"
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							

The Commercial Property Declarations contain a section in which the first Named Insured can elect to activate a number of optional coverages. It is important to understand that these coverages are not endorsements, but rather are activated from the Declarations.

Section 1: Commercial Property Coverage Forms and Endorsements

The following is a brief overview of the Optional Coverages listed on the Declarations. They will be discussed in greater depth toward the end of this section.

Agreed Value

Agreed Value suspends the Coinsurance clause and can be applied to covered property and/or business income. Activation of this optional coverage indicates the underwriter and the Named Insured agree that an adequate limit of insurance is being carried for eligibility, and as such, the coinsurance provision can be suspended for a period of time.

The Agreed Value option always has an expiration date and will not last longer than 12 months. This expiration date means that the coinsurance provision is not waived or removed entirely, but rather *suspended* for a period of time—in this case, up to 12 months. If the first Named Insured reduces the limit of insurance during the policy period to an amount below the agreed value, the coinsurance provision will be reinstated.



Replacement Cost

Actual Cash Value (ACV) applies unless **Replacement Cost (RC)** is activated by marking an “X” on the items to be covered on the Declarations. The following chart illustrates the differences between ACV and RC.

Actual Cash Value	Replacement Cost
Traditionally the valuation method found in property insurance policies	Method of valuation commonly desired but oftentimes must be requested
Cost to replace the covered property at the premises at the time of the loss <i>minus depreciation</i> due to the fact that the property has been used for a period of time	The amount needed to replace covered property at a premises with like kind and quality in today's dollars
Simply put: Replacement cost <i>minus depreciation</i>	<i>Depreciation is not considered.</i>

Extension Of Replacement Cost To Personal Property Of Others

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. It would have to be requested and added to the Declarations for RC

Section 1: Commercial Property Coverage Forms and Endorsements

coverage to be activated for the personal property of others. Some insurance companies often include this extension under Optional Coverages on their Declarations to be marked “X” to activate the coverage.

Inflation Guard

Because the value of property can increase over time, it is important that the insured maintain adequate limits of insurance. When **Inflation Guard** is activated, the limit of insurance will automatically increase at an annual percentage, and limits will be prorated daily throughout the year. To activate Inflation Guard, mark the annual percentage that will apply for each item that is selected on the Declarations.



Business Income

If Business Income Coverage is also provided, these Optional Coverages entries may also be activated on the Declarations in addition to or in place of Business Income Agreed Value (these will be discussed in much greater detail later in Section 3).

- **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.

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
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Mortgageholders

Mortgageholders should be listed per building.

Deductible

A \$500 deductible is standard in most states, but other deductibles are available. These will be discussed in greater detail throughout the section.

Commercial Property Conditions

The Commercial Property Conditions essentially represent the “rules” of the policy.

A. Concealment, Misrepresentation Or Fraud



This condition states that this Coverage Part will become void in any case of fraud by the Named Insured at any time. The Coverage Part will also become void if any insured

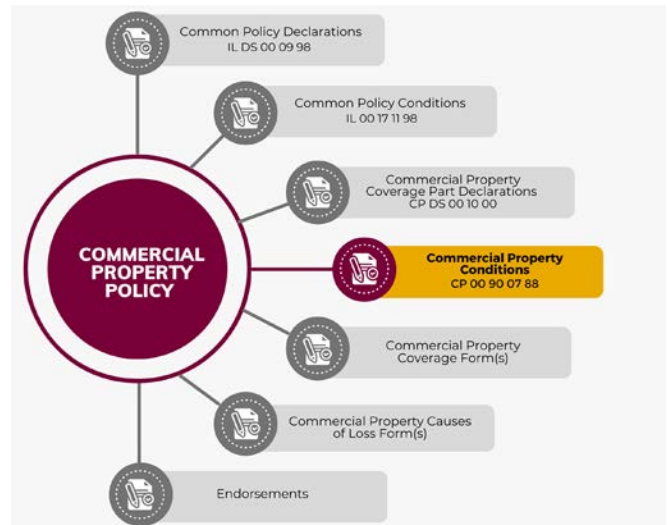
intentionally conceals or misrepresents a material fact relating to this Coverage Part, the Covered Property, the Named Insured's interest in the Covered Property, or a claim under this Coverage Part.

Insureds need to be fully aware of this condition because an insured who fails to act in good faith or who attempts to conceal or misrepresent facts pertaining to a claim may have a claim denied.

B. Control Of Property

This condition states that acts of others beyond the Named Insured's direction or control will not affect coverage.

Additionally, a breach of conditions at one location will not affect coverage at other locations where a breach has not occurred.



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

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.

It is possible that more than one section of the policy could apply to the same loss. For example, some items could be classified as building or as your business personal property. This condition clarifies that the policy will not pay more than the actual loss amount, regardless of how many coverages might apply.

D. Legal Action Against Us

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.

This condition states that no one can file a lawsuit against an insurer until all terms of the Coverage Part have been met, and any legal action must be brought within two years of the date on which the loss or damage occurred. Some states may have provisions that modify the two-year timeframe; thus, insurance professionals must be aware of the laws in their local jurisdictions.



E. Liberalization

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.

If coverage is broadened on an already issued policy, those policies will have the benefit of broadened coverage. However, this condition only applies if there is no additional premium for the broadened coverage.

F. No Benefit To Bailee

F. NO BENEFIT TO BAILEE

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

In **bailment** situations, in which the insured has entrusted their personal property to another party (a **bailee**), the policy only protects the Named Insured, not the person or entity to whom they have entrusted their property.

G. Other Insurance

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.

This condition states that if other insurance covering the same property with the same terms, conditions, and provisions exists, this coverage part will pay on a pro-rata basis. If the other insurance does not have the same terms, conditions, and provisions, this coverage part will be excess over other insurance, *whether it is collectible or not*.

H. Policy Period, Coverage Territory

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.

This condition states that coverage only applies to losses *commencing** during the policy period shown in the Declarations and within the coverage territory, which is the U.S., its territories and possessions, Puerto Rico, and Canada.

*Note that the loss must only commence during the policy period; if the peril continues after the policy period has ended, the loss or damage will still be covered. For example, if a fire begins during the last hour of the policy period and continues after the policy period has ended, any losses or damage from the fire will still be covered.



The following endorsements can be used to modify the coverage territory of the Commercial Property Policy.

Business Personal Property Limited International Coverage CP 04 32 04 02



This endorsement provides coverage for Business Personal Property that is in or is en-route to or from the foreign coverage territory listed in the Schedule.

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



This endorsement provides coverage for raw materials and goods that are in the process of manufacture in a foreign coverage territory listed in the Schedule provided that the manufacturing is done by others at a location that is not owned or operated by the insured.



Alert

Insurance professionals should exercise caution when requesting endorsements that modify the coverage territory to include international locations. Certain foreign countries will require coverage to be purchased in that country from a company authorized to transact business within that country.

Check-In



Directions: Match each description to the corresponding Commercial Property Condition.

A. Concealment, Misrepresentation Or Fraud	_____ A lawsuit cannot be brought against the insurer until all terms of the coverage part have been met, and legal action must be brought within two years, subject to state provisions.
B. Control Of Property	_____ The policy will not pay more than the actual loss amount, no matter how many coverages apply.
C. Insurance Under Two Or More Coverages	_____ No person having custody of Covered Property (other than the insured) will benefit from this policy.
D. Legal Action Against Us	_____ Coverage only applies during the policy period and within the U.S, its territories and possessions, Puerto Rico, and Canada.
E. Liberalization	_____ This Coverage Part is void if the insured conceals or does not accurately represent information pertaining to the coverage or to a claim.
F. No Benefit To Bailee	_____ Other insurance covering the same property with the same terms, conditions, etc., will be paid on a pro-rata basis. Other insurance with different terms, conditions, etc., will be paid on an excess basis.
G. Other Insurance	_____ Newly insured policies will benefit from broadened coverage as long as no additional premium applies.
H. Policy Period And Territory	_____ The Named Insured can waive the rights of recovery (in writing) to anyone prior to a loss and to certain responsible parties after a loss.
I. Transfer Of Rights Of Recovery Against Others To Us	_____ Actions of others outside the control of the Named Insured will not affect the policy. A breach of conditions at one location will not impact coverage at unaffected locations.

Learning Objective:

- 1.3 Explain the application of the Transfer Of Rights Of Recovery Against Others To Us condition.

I. Transfer Of Rights Of Recovery Against Others To Us

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.

This condition is commonly known as the Waiver of Subrogation Clause.

Prior to a Loss

This condition states that the Named Insured may waive their rights of recovery (in writing) against *anyone* prior to a loss.



A Named Insured hires a roofing contractor to put a new roof on their building and must sign a contract stating that they will not pursue recovery for any damages caused by the roofing company during the roof replacement. While installing the new roof, the roofing contractor negligently starts a fire that damages the building. The insurance company pays the Named Insured and would then like to sue the roofing contractor to recover the monies paid. Because the contract was signed prior to the loss and it does not violate any policy conditions, the insurance company cannot pursue the roofing contractor to recover monies paid to the insured.



After a Loss

This condition also permits the Named Insured to waive their rights of recovery after a loss, but only if in writing and *only to certain persons or entities*, as follows:

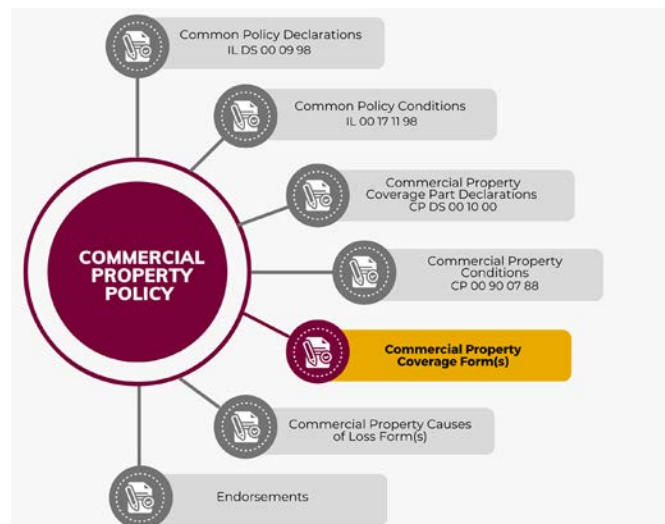
- Another insured
- A business owned and controlled by the Named Insured, or a business that owns or controls the Named Insured (parent company or a subsidiary)
- A tenant of the Named Insured

Waiving rights of recovery in writing to anyone prior to a loss or to the specific parties listed after a loss will not violate the policy conditions and thus will not restrict the insurance.

Commercial Property Coverage Forms

The purpose of commercial property coverage forms is to:

- Identify the subject of insurance
- Describe additional coverages and coverage extensions
- Provide additional conditions not specified in the Common Policy Conditions or the Commercial Property Conditions
- Provide the same coverages regardless of the Causes Of Loss form(s) selected.



Commercial Property Coverage Form Types

The following is a list of the available Commercial Property Coverage Forms:

- **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
- Mortgageholders Errors And Omissions Coverage Form CP 00 70 10 12
- Tobacco Sales Warehouses Coverage Form CP 00 80 10 12

This course will explore the Building And Personal Property Coverage Form in great depth and will also examine Business Income Coverage Forms (with and without Extra Expense), the Extra Expense Coverage Form, and the Leasehold Interest Coverage Form, as well as aspects of the Legal Liability Coverage Form.



Knowledge Check



Directions: Describe how and when a Named Insured can waive their rights of recovery against another party.

Part 1: Summary

An ISO Commercial Property Policy is built using a modular approach containing the following components:

- Common Policy Declarations
- Common Policy Conditions
- Commercial Property Coverage Part Declarations
- Commercial Property Conditions
- Commercial Property Coverage Form(s)
- Commercial Property Causes Of Loss Form(s)
- Endorsements

The Common Policy Conditions outline the five rights and duties of the first Named Insured. The five rights and duties are:

- the right to authorize cancellation of a policy,
- the right to receive notice of cancellation from the insurer,
- the right to make changes with insurer consent,
- the responsibility to pay all insurance premiums, and
- the first Named Insured is the payee for any return premium.

The Commercial Property Declarations state the coinsurance requirements. If a limit of insurance is adequate to comply with the coinsurance provision, no penalty will apply. If the amount carried is less than the amount required, then the insured is underinsured, and a penalty may apply. The insurance amount required is the value of the covered

<p>AMOUNT CARRIED</p> <p>(Did)</p> <hr/> <p>AMOUNT REQUIRED</p> <p>(Should)</p>	<p>×</p> <p>LOSS</p> <p>=</p>	<p>Recovery</p> <p><u>minus</u></p> <p>deductible</p> <p><u>equals</u></p> <p>settlement</p>
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property for the valuation chosen (actual cash value or replacement cost) at the time of the loss multiplied by the Coinsurance percentage shown in the Declarations. The formula for coinsurance for commercial party is amount carried (Did) divided by the amount required (Should) multiplied by the loss, which equals the settlement, which is the recovery amount minus any deductible.

There are four optional coverages available:

- Agreed Value (which can suspend coinsurance)
- Replacement Cost
- Inflation Guard
- Extension of Replacement Cost to Personal Property of Others

Section 1: Commercial Property Coverage Forms and Endorsements



The Commercial Property Conditions represent the “rules” of the policy. Endorsements are also available to modify the commercial property coverage territory. These endorsements are: Business Personal Property Limited International Coverage (CP 04 32 04 02) and Property in the Process of Manufacture by Others Limited International Coverage (CP 04 33 04 02).

The last of the nine Commercial Property Conditions specifies how and when the Named Insured can apply the Waiver Of Transfer of Rights Of Recovery From Others To Us condition, commonly known as the Waiver of Subrogation clause. The Condition states the Named Insured may waive their rights of recovery against anyone, if in writing and prior to a loss. A Named Insured can also waive their rights of recovery after a loss, but only if in writing and only for certain persons or entities, namely, another insured, a tenant of the Named Insured, or a business owned and controlled by the Named Insured or a business that owns or controls the Named Insured (parent company or subsidiary).

Commercial Property Coverage Forms identify the subject of insurance. They also describe additional coverages and coverage extensions. Commercial Property Coverage Forms provide Additional Conditions not specified in the Common Policy Conditions or the Commercial Property Conditions and provide the same coverages, regardless of the Causes Of Loss form(s) selected.

Endorsements in Part 1

Below is a list of the endorsements mentioned in Part 1 of this section.

	Business Personal Property Limited International Coverage CP 04 32 04 02
	Property In The Process Of Manufacture By Others Limited International Coverage CP 04 33 04 02

Part 1: Self-Quiz

1. List the five rights and duties of the first Named Insured.

- a. _____
- b. _____
- c. _____
- d. _____
- e. _____

Directions: Select the best answer(s) for the following questions. Some questions may have more than one correct response.

2. What is the coinsurance formula that applies when an insufficient Limit of Insurance is carried?

- ☐ Amount carried/amount required X Loss = Recovery minus deductible equals settlement
- ☐ Amount required/amount carried X Loss = Recovery minus deductible equals settlement
- ☐ Amount carried/amount required X (Loss minus Deductible) = Recovery settlement
- ☐ Amount required/amount carried X (Loss minus Deductible) = Recovery settlement

3. A Named Insured has a building valued at \$1,000,000 with an 80% coinsurance requirement. The Named Insured has a \$400,000 Limit of Insurance and suffers a property loss with damage totaling \$100,000. If the building is valued at \$1,000,000 at the time of the loss and the policy has a \$10,000 deductible, how much will the Named Insured receive in the settlement?

- ☐ \$25,000
- ☐ \$40,000
- ☐ \$50,000
- ☐ \$90,000

Section 1: Commercial Property Coverage Forms and Endorsements

4. Which of the following statements are accurate regarding the rights of recovery? (Select all that apply).
- ☐ Rights of recovery can be transferred through verbal agreement.
 - ☐ Transfer of rights of recovery must always be waived in writing.
 - ☐ The Named Insured can only transfer rights of recovery to certain persons or entities both before and after a loss.
 - ☐ After a loss, the rights of recovery can only be waived against certain persons or entities.
5. Following a loss, the Named Insured can transfer the rights of recovery to which of the following persons or entities? (Select all that apply).
- ☐ Another insured
 - ☐ An immediate family member not named as an insured on the policy
 - ☐ A parent company or subsidiary of the Named Insured
 - ☐ A tenant of the Named Insured
 - ☐ A company contracted to work on the insured's property

Part 2: The Building And Personal Property Coverage Form, A(1-3) and Methods of Writing Commercial Property Insurance

The Building and Personal Property Coverage Form

The Building And Personal Property 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

Coverage for real and business personal property is essential for any commercial operation. The ISO Building And Personal Property Coverage Form is the most commonly used coverage form to insure commercial buildings and their contents.

Throughout the remainder of this section, each part of this form will be examined in detail, beginning with the Preamble. The graphic shown here provides a brief overview of the sections of the Building And Personal Property Coverage Form that will be covered.

Preamble

Paragraph 1 of the preamble (shown below) states that various policy provisions restrict broadness of coverage, and it is the responsibility of the insured to read through the policy carefully to understand rights, duties, and coverages. Paragraph 2 is used to identify how the Named Insured and insurer will be identified.

There is an endorsement that can be used to modify the definition of the Named Insured.

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.

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.

The Additional Insured – Building Owner endorsement is used for situations where the tenant agrees to pay costs related to the building that would typically be paid by the building owner, for example, building maintenance costs, taxes, and insuring the building. The building owner *does not receive notice of cancellation* under this endorsement, but the owner *is able to negotiate settlement with the insurer*.

Learning Objectives:

- 1.4 Distinguish between Covered Property (including Building, Your Business Personal Property, and Personal Property of Others) and Property Not Covered, as defined by the Building And Personal Property Coverage Form.
- 1.5 Given a scenario, recommend endorsements that modify the definitions of Building and Your Business Personal Property.

A. Coverage (Insuring Agreement)

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.

The Insuring Agreement states that the following conditions must be met in order for the policy to pay:

- 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.

The Building And Personal Property 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

1. Covered Property

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.

There are three categories of covered property:

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

a. Building





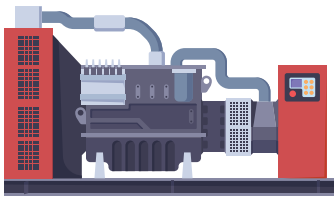


a. Building, meaning the building or structure described in the Declarations, including:




- (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.


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.

The following table provides more information regarding the types of property considered to be Building, according to the coverage form.

Table 1.2

Included in the Definition of Building		
Buildings and structures: completed additions	Covered buildings and structures that are complete at the time of the loss are subject to the building's limit of insurance.	
Fixtures	Fixtures, including outdoor fixtures  Flagpole, furnace, light	
Permanently installed: (a) Machinery; and (b) Equipment	Machinery and equipment (considered permanently installed) can be covered as Building in certain instances.  Generator	
 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 <i>the insurer's interpretation</i> of what permanently installed means.		
 Think about it: How do you define “permanently installed”? If an insured bolts a piece of machinery or equipment to the floor of the building, but intends to remove it and take it with them when they move out of the building, does that count as permanently installed? In many cases, the definition of “permanently installed” means that the insured has no intention of removing the machinery or equipment. It is important for this to be taken into account at the inception of the policy.		

Included in the Definition of Building	
Personal property used to service the building or structure or its premises	<p>This category includes:</p> <ul style="list-style-type: none"> • Fire extinguishing equipment • Outdoor furniture such as park benches • Floor coverings • Cooking appliances, refrigerators, dishwashers, washers, and dryers
	
<div>  <p>Note:</p> <p>This is potentially a broad category of items that could include cleaning/grounds-keeping equipment and vehicles used to service the premises, including those listed above.</p>  </div>	

If not covered by other insurance:		
Additions under construction	<p>This category includes:</p> <ul style="list-style-type: none"> • Additions under construction • Alterations and repairs to the building or structure 	
Building materials, supplies, and temporary structures	<p>These items can be considered Building as long as they are:</p> <ul style="list-style-type: none"> • on or within 100 feet of the described premises • used to complete an addition, alteration, or repair to the building or structure 	

It is not uncommon for agents and insureds to be unaware that many of the items listed above are included in the definition of Building. While selecting the limit of insurance, the agent and insured must consider the value of all items described in this section of the policy.

Section 1: Commercial Property Coverage Forms and Endorsements

The following endorsements can be used to modify the definition of Building.

Additional Building Property CP 14 15 07 88



This endorsement may be used to clarify that certain items which might be in a gray area are covered under Building. For example, machinery and equipment bolted to the floor that might be considered Your Business Personal Property will now be considered Building.

This endorsement will allow the building rate to apply to all property scheduled under this endorsement. As the building rate is typically less expensive than other property coverage rates, this is another reason that use of this endorsement can be advantageous for the insured. In order to add this endorsement, the insured must already have Building coverage.



Soak n' Suds carwash has a \$500,000 Building Limit of Insurance and an additional \$500,000 Limit of Insurance for Your Business Personal Property to cover the carwash equipment that the owner would dismantle and take with them if they moved to a different location. 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 to avoid problems with coinsurance and the Your Business Personal Property Limit of Insurance can be decreased as well.



Additional Property Not Covered CP 14 20 11 91



This endorsement is used to add specific types of property to the list of "Property Not Covered" if the Named Insured or insurer does not want or need to cover such property (e.g., tenants' improvements and betterments for the owner of the building where the lease requires the tenant to provide such insurance).

When this endorsement is in effect, the specified property should not be included in the Limit of Insurance or in the coinsurance calculations. This endorsement may make an unacceptable risk acceptable.

Check-In



Directions: Which of the following would MOST LIKELY be considered as Building on an unendorsed Building And Personal Property Coverage Form? (Check all that apply).

- ☐ An incomplete building addition that is not covered by other insurance
- ☐ A furnace that is affixed to the roof of a building
- ☐ Building materials located 500 feet from the described premises
- ☐ Welding machinery that the insured intends to remove
- ☐ An indoor rug covering the entranceway to a building

b. Your Business Personal Property

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.

It is important to note that Your Business Personal Property is defined as being 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. Consider an example:




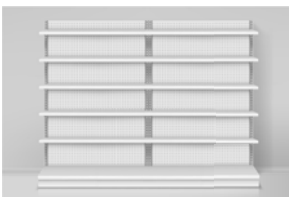

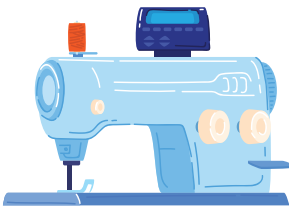



Frida stores some of her "stock" in a shed located 75 feet from the main building. While the building is described in the Declarations, the shed is not. One evening, the shed catches fire, and all of the stock stored inside it is destroyed. Would this property be covered by Frida's policy?


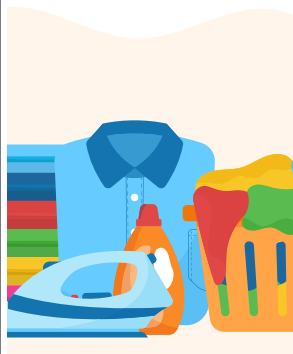




Answer: No. Because the shed is an *unscheduled building*, the stock held inside of it is not insured. Business Personal Property within 100 feet of the building or structure or within 100 feet of the described premises is only covered if it is out in the open or in a vehicle.

Section 1: Commercial Property Coverage Forms and Endorsements

The following table explains the types of Your Business Personal Property in greater detail.

Table: 1.3

Types of Your Business Personal Property		
Furniture and fixtures	<p>The fixtures referred to in this definition are trade fixtures and would be removed when the building is vacated.</p>  <p>A shop owner installs shelving which he will remove and take with him when he vacates the building.</p>	
Machinery and equipment	<p>The machinery and equipment referred to in this definition are items that are not permanently installed.</p>  <p>Commercial sewing machines, computers, and industrial presses at manufacturing plants</p>	
"Stock"	<p>The term "stock" is defined in Section H of the coverage form.</p> <div> <p>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.</p> </div>	
All other personal property owned by you and used in your business	<p>This encompasses all remaining personal property not already identified that the Named Insured owns and uses in their business.</p>  <p>Office supplies</p>	

Types of Your Business Personal Property		
Labor, materials, or services furnished or arranged by you on personal property of others	<p>This covers the labor and/or materials the Named Insured has put into customers' property. Note that this does not insure the value of the property when turned over to the Named Insured, but rather the value of the improvements that the Named Insured makes to the property while it is in their care, custody, or control.</p> <p> The labor and materials furnished by a dry cleaner</p>	
Use value to a tenant of improvements and betterments	<p>Improvements and betterments are fixtures, alterations, installations, or additions:</p> <ul style="list-style-type: none"> made a part of the building or structure the Named Insured occupies but does not own; and the Named Insured acquired or made at the Named Insured's expense but cannot legally remove. <p> New countertops installed by the tenant</p>	
Leased Property that you have a contractual obligation to insure	<p>Note that it is not enough to have contractual responsibility for loss or damage.</p> <p> Copiers and printers leased by a business requiring insurance to be purchased</p>	

Section 1: Commercial Property Coverage Forms and Endorsements

There are several endorsements that can be used to modify Your Business Personal Property.

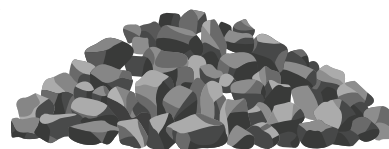
Additional Property Not Covered CP 14 20 11 91



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



The insured operates a large stone quarry. Their “stock” consists of large amounts of stone aggregate used for making concrete, which is loose and in the open. 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 for Your Business Personal Property.

Leased Property CP 14 60 07 88



This endorsement is used to insure business personal property leased to the Named Insured as Your Business Personal Property instead of categorizing it as Personal Property of Others. This is especially needed when there is a contractual responsibility for loss but not a contractual obligation to insure.

This endorsement should be on every Building And Personal Property Coverage Form because it includes *any leased property* indicated in the Schedule. While leased property that carries a contractual obligation to insure is automatically considered Your Business Personal Property, leased items that the insured is not contractually obligated to insure are considered Personal Property of Others. This endorsement allows all leased business personal property to be insured as Your Business Personal Property.

Leased business personal property may be covered on an Agreed Value basis rather than Actual Cash Value or Replacement Cost, if the Agreed Value option is selected on the Schedule. This is an advantage when there is a clause in the lease stating that the Named Insured will owe a specific amount if the leased property is destroyed, because the amount might exceed ACV or Replacement Cost. The amount stated in the lease will be paid in the case of a total loss, as long as the Agreed Value option is selected.

Your Business Personal Property – Separation Of Coverage CP 19 10 06 95



This endorsement 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.

This can be used for tenants’ improvements and betterments. The value of the improvements and betterments will be listed separately on the endorsement and the Building rate will apply rather than the Your Business Personal Property rate.

Section 1: Commercial Property Coverage Forms and Endorsements



Erica's Accoutrement is a small clothing retailer. The leased space is in a new strip shopping center and the space is 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 having 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.

Check-In



Directions: Indicate whether each of the following examples should be classified as Building or Your Business Personal Property (YBPP).

1. A conference table

Building

YBPP

2. A table and chairs kept outdoors on the back patio of the property

Building

YBPP

3. A washer and dryer

Building

YBPP

4. An industrial sewing machine that the insured intends to remove when they vacate the building

Building

YBPP

c. Personal Property Of Others

This generally applies to property that has been entrusted to the Named Insured:

- to work on
- on consignment
- has been sold but not delivered, or
- has been leased to the Named Insured.

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.

This only covers the personal property of others for direct damage, not for loss of use. The Legal Liability Coverage Form CP 00 40 could be used for loss of use exposures; this will be discussed in greater detail later in the section.

2. Property Not Covered

There are 17 categories of Property Not Covered. Property can be excluded for a variety of reasons, including:

- It is customarily insured under more specialized policies.
- It is relatively unsuceptible to loss.
- It is more susceptible to loss.
- Certain types of property held for sale by the Named Insured that were not intended to be covered by the Building And Personal Property Coverage Form.

There is also restricted coverage for certain types of 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.

Endorsements that can Modify Property Not Covered

Additional Covered Property CP 14 10 06 95



This endorsement expands the definition of Covered Property and can be used to buy back coverage for certain property that is included in Property Not Covered. It is important to include the values in the Limit of Insurance.



The Named Insured has a paved surface for which coverage is desired. The insured uses the Additional Covered Property endorsement to buy back coverage for the paved surface, which would otherwise be excluded.



Alert

The value of Property Not Covered items should *not* be included in the Limits of Insurance *unless they have been covered under Additional Covered Property CP 14 10 06 95*.

Section 1: Commercial Property Coverage Forms and Endorsements

The following exhibit shows the 17 categories of Property Not Covered and possible methods of buying back coverage.

Table: 1.4

Type of Property Not Covered	Possible Coverage Buy-Back
Accounts, bills, currency, food stamps or other evidences of debt, money, notes or securities (Lottery tickets held for sale are not 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 CP 14 10 or Inland Marine Coverage Forms
Contraband, illegal transportation/trade	Not insurable under current laws
Excavations, grading, backfilling, or filling	Additional Covered Property CP 14 10
Foundations of buildings, structures, machinery, or boilers, if their foundations are below: The lowest basement floor; or The surface of the ground, if there is no basement	Additional Covered Property CP 14 10
Land (including land on which property is located), 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 CP 14 10 or Inland Marine Coverage Forms
Property covered elsewhere	BPPCF pays excess
Retaining walls that are not part of the building	Additional Covered Property CP 14 10
Underground pipes, flues, or drains	Additional Covered Property CP 14 10

Section 1: Commercial Property Coverage Forms and Endorsements

Type of Property Not Covered	Possible Coverage Buy-Back
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, or restore information on valuable papers and records	Accounts Receivable Coverage Form CM 00 66; Valuable Papers And 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 Commercial Auto Coverage Forms Inland Marine Coverage Forms
Certain outdoor property	Fences—Additional Covered Property CP 14 10 Trees—Outdoor Trees, Shrubs And Plants CP 14 30 Antennas—Radio Or Television Antennas CP 14 50 or Radio And Television Towers And Equipment Coverage Form IH 00 77

▶▶ Knowledge Check



Directions:

- Circle the correct item to indicate whether each of the following items are Covered Property or Property Not Covered.
- If it is Covered Property, state whether it is Building, Your Business Personal Property, or Personal Property of Others.
- If it is Property Not Covered, state which endorsement or coverage form (if any) could help the insured to buy back coverage.

1. An underground pipe

Covered Property

- ☐ Building
- ☐ Your Business Personal Property
- ☐ Personal Property of Others

Property Not Covered

2. A riding lawnmower

Covered Property

- ☐ Building
- ☐ Your Business Personal Property
- ☐ Personal Property of Others

Property Not Covered

3. A chair that has been purchased by a customer is in a delivery truck 50 feet from the building described in the Declarations.

Covered Property

- ☐ Building
- ☐ Your Business Personal Property
- ☐ Personal Property of Others

Property Not Covered

4. Store shelving that is not permanently installed

Covered Property

- ☐ Building
- ☐ Your Business Personal Property
- ☐ Personal Property of Others

Property Not Covered

Methods of Writing Commercial Property Insurance

Learning Objective:

- 1.6 Compare and contrast the three methods of writing commercial property insurance, and evaluate the advantages and disadvantages/considerations of writing a policy on a blanket basis.

Before going further into the BPPC Form, the methods of writing Commercial Property insurance will be addressed. There are three primary options:

- Specific Coverage
- Scheduled Coverage
- Blanket Coverage

Specific Coverage

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



Location #1	
Building	\$500,000
Your Business Personal Property	\$300,000

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

Scheduled Coverage

When a policy shows separate limits of insurance applied to two or more individually listed properties, these are called Scheduled Limits of Insurance. With Scheduled Coverage, there is still a specific amount of insurance that applies to each type of property at each separate location scheduled.



Location #1		Location #2	
Building	\$500,000	Building	\$800,000
Your Business Personal Property	\$300,000	Your Business Personal Property	\$400,000

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

Blanket Coverage

A blanket limit includes the value of all reported properties. This total limit is available to pay losses regardless of which property or location has suffered the loss. There are two options for Blanket Coverage.

1. One limit that applies to more than one type of property

(e.g., Building and Your Business Personal Property)



Location #1	
Building	\$500,000
Your Business Personal Property	\$300,000
Blanket Limit on Building and YBBP	\$800,000

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)



One Type of Property at More than One Location					
Location 1		Location 2		Location 3	
Building	\$200,00	Building	\$300,000	Building	\$500,000
Blanket Limit on Buildings					\$1,000,000

More than One Type of Property at More than One Location					
Location 1		Location 2		Location 3	
Building	\$200,000	Building	\$300,000	Building	\$500,000
BPP	\$100,00	BPP	\$200,000	BPP	\$300,000
Blanket Limit on Buildings and Your Business Personal Property					\$1,600,000

Section 1: Commercial Property Coverage Forms and Endorsements

The following example further illustrates how Blanket Coverage is applied and how it differs from Scheduled Coverage.



Hammering Hank's Hardware has three locations with the following limits at each location:

One Type of Property at More than One Location: Hammering Hanks					
Location 1		Location 2		Location 3	
BPP	\$100,00	BPP	\$200,000	BPP	\$300,000
Blanket Limit on Your Business Personal Property					\$600,000

Every year, Hammering Hanks has an end-of-summer sale at Location #1 and brings in \$100,000 of inventory from each of the other two stores. On the night before the big sale, a fire destroys \$250,000 of business personal property at Location #1.

If Hammering Hanks had Scheduled Coverage, it would only pay \$100,000. Because they have Blanket Coverage the total limit is available, meaning that the entire loss of \$250,000 will be covered.



Coinsurance

There is a coinsurance requirement for blanket coverage. Normally, there is a minimum 90% coinsurance requirement, with a 100% coinsurance option available as well.



In the previous example showing the blanket limit on Buildings and Your Business Personal Property of \$1,600,000, with a 90% coinsurance requirement, the insured would need to carry a minimum limit of \$1,440,000 to be in compliance with coinsurance.

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. Note that average rates apply to all items. A 90% coinsurance requirement receives the 80% coinsurance rates, and a 100% coinsurance requirement receives the 90% coinsurance rates.

The rate remains in effect for no more than one year before re-computation, and a sworn statement of values must be filed with the insurer annually, prior to renewal.


Specific Categories

Blanket Coverage can be written on specific categories of property. For example, Blanket Coverage could be written for stock only or for improvements and betterments only.

Advantages, Disadvantages, and Special Considerations

The following table lists several advantages, disadvantages, and special considerations when writing Blanket Coverage.

Table: 1.5

Advantages and special considerations	Disadvantages and special considerations
<ul style="list-style-type: none"> • The Named Insured can apply insurance where needed when more than one type of property is covered on a blanket basis. • Blanket Coverage handles fluctuating values between locations or fire-rated divisions. • Reporting forms can be easier to handle. • The Named Insured may have 100% insurance to value at each location, but only has to carry a minimum of 90% insurance to value for all locations combined. 	<ul style="list-style-type: none"> • 90% or 100% coinsurance is required. • Blanket Coverage may not be possible because of underwriting or form restrictions. • A statement of values must be obtained from the Named Insured listing each item and the amount of coverage. • Rates are for one year only. • The Named Insured must have the same causes of loss for all covered property. • When there are multiple locations, all ownership interests must be listed.
<div>  <p>Think About It</p> <p>Can you think of any other advantages and disadvantages to using Blanket Coverage?</p> <p>Are there specific situations where you think Blanket Coverage is more beneficial to the Named Insured?</p> </div>	

The following exhibits show an example of a Statement of Values and CP Coverage Part Declarations Page for multiple properties insured on a blanket basis. Note that in the first exhibit, the rate is being multiplied by the 100% value of the buildings, but the rate is lower because the buildings will only be insured at 80% of their value to satisfy coinsurance.

Section 1: Commercial Property Coverage Forms and Endorsements



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	\$1,000
4	Personal Property 103 Sycamore	PP	\$250,000	.10	\$250
Sum of Premiums		= \$1,475			
Sum of Values		= \$1,100,000			
Blanket Rate		= \$1,475 divided by \$1,100,00			
		= 13.4 cents per \$100 of insurance			

CP Coverage Parts Declaration Page					
Quicksand Mutual Insurance Company Eddie's Hardware and Automotive, Inc.					
Premises	Bldg.	Coverage	Limits	Cause of Loss	Coinsurance
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 only as a guide. Please read the policy.

Knowledge Check



Directions: Read the scenario and answer the question that follows.

Eddie owns a spicy snack business. He owns two buildings where inventory fluctuates throughout the year. The buildings are valued at \$500,000 each and his business personal property is valued at \$500,000 total.

What advantages and disadvantages would Eddie face if he covered these items on a blanket basis?

Advantages:

Disadvantages:

Endorsements that Address Changing or Fluctuating Values

Learning Objective:

- 1.7 Given a scenario, detail how relevant endorsements will handle fluctuating values, including any reporting provisions.

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



This endorsement limits the maximum amount payable for any item to the percentage shown in the Schedule multiplied by the value reported on the last Statement of Values. It applies to Building and Your Business Personal Property. *This endorsement severely restricts the “blanket concept.”* The margin clause percentage options are 105%, 110%, 120%, and 130%.



Margin Clause Application

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

Amount of loss minus Deductible:

$$\begin{array}{r}
 \$1,200,000 \\
 - \$10,000 \\
 \hline
 = \$1,190,000
 \end{array}$$

\$1,190,000 is more than the maximum loss payable

Insurer pays \$1,100,000

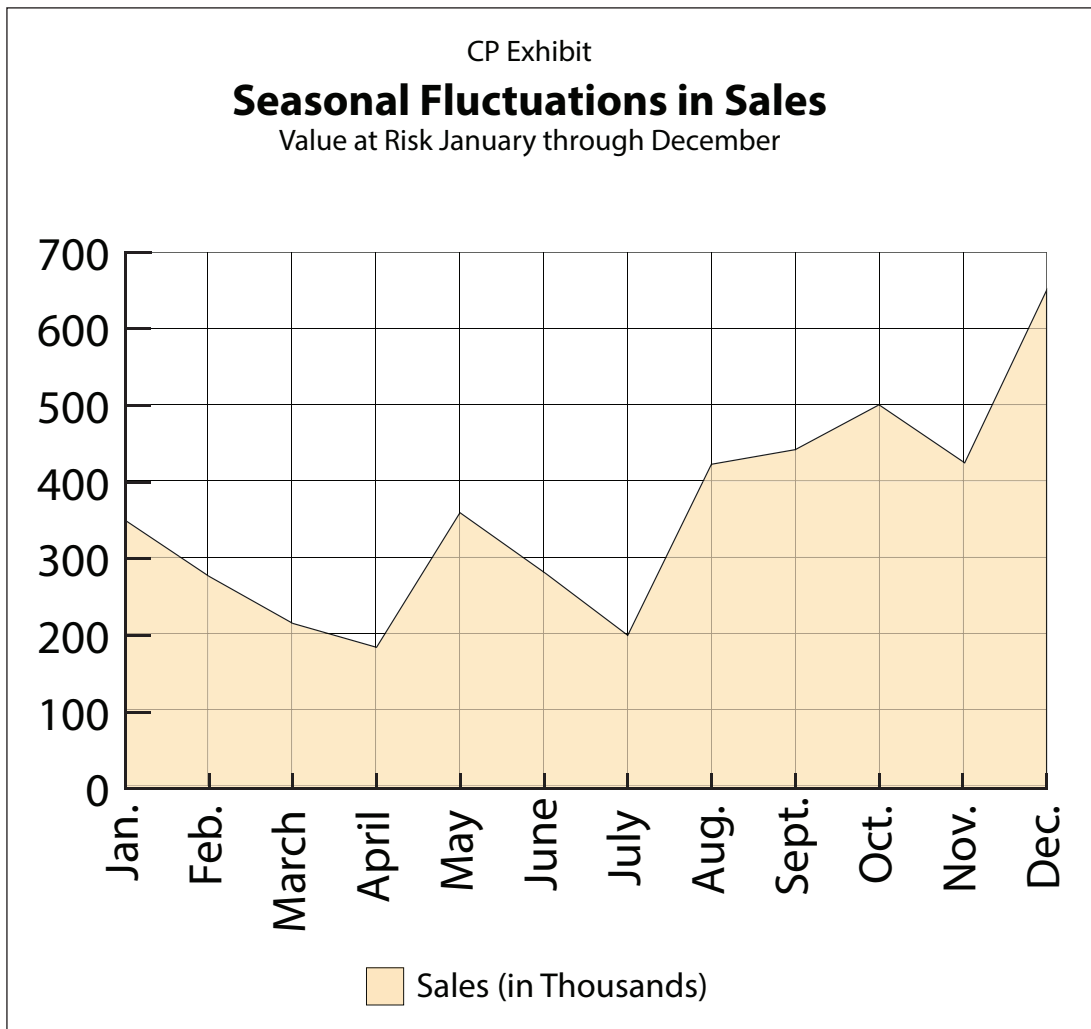
This exhibit should be used solely as a guide. Please read the policy.

Peak Season CP 12 30 06 95



This endorsement allows the Named Insured to increase coverage for a specified number of days to reflect predictable (planned or expected), seasonal increases in business personal property insurance. It may be written for any number of periods within the policy term, but cannot extend beyond the policy term. The additional premium is prorated for the selected periods.

The Peak Season endorsement specifies on which dates the policy limits are increased and shows the additional amount needed during the peak season, not the total limit. The Peak Season endorsement may not be written on a Value Reporting Form or on property written on a blanket basis.



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

Value Reporting Form CP 13 10 04 02



This endorsement is designed for Named Insureds with fluctuating business personal property values or changing locations. It provides a means to accurately measure changing values of business personal property in order to provide adequate coverage and charge the appropriate premium. Eligible property

includes:

- Business Personal Property of the Named Insured
- Personal Property of Others
- Stock only

To use the Value Reporting Form, the Named Insured must have the willingness and the ability to make accurate and timely required periodic reports.

Premiums

The following excerpt from the endorsement describes how premiums are paid.

<p>C. Premium Adjustment</p> <p>For Covered Property to which this endorsement applies:</p> <ol style="list-style-type: none">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:<ol style="list-style-type: none">a. Charge additional premium; orb. Return excess premium. <p>The due date for any additional premium is the date shown as the due date on the bill.</p>	<p>The premium paid at the policy inception is considered an advance premium. The final premium is determined at the end of the policy year based on the average reports of value submitted by the Named Insured. At the end of the policy year, the difference between the advance premium and the final premium is calculated, and then is either paid by or returned to the Named Insured.</p>
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Reporting Provisions

Table: 1.6

Report Type	Provisions
New policy	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 with daily, weekly, or monthly reporting forms.
Renewal policy	On a renewal policy, the first report is due 30 days after the end of the first “reporting period.”
Subsequent reports	All subsequent reports must be filed within 30 days of the end of each “reporting period.”

Section 1: Commercial Property Coverage Forms and Endorsements

Reports can be based on daily, weekly, monthly, quarterly, or policy year values, with the following stipulations:

- 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 the quarter, based on the inception date.
- 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, which is the limit selected at the beginning of the policy period, is available when the loss follows an accurate report.



Sturgess and Son Hardware has a value reporting form with a provisional limit of \$1,000,000. Their report for February was received on March 15th showing values of \$800,000. On April 26th 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 they are inaccurate, the coinsurance penalty (calculated using the Did/Should formula) will apply.



Sturgess and Son Hardware has a value reporting form with a provisional limit of \$1,000,000. Their report for March was received on April 17th showing values of \$400,000. On April 26th 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?

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

Answer: \$100,000

Reports in Excess of the Limit of Insurance

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



Sturgess and Son Hardware's April report was received on May 24th showing accurate values of \$1,200,000. On May 30th, 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 the first report is not filed, the policy will not pay more than 75% of what it would otherwise have paid.



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

Answer: The policy will only pay \$75,000

Subsequent Reports Late

If the Named Insured begins reporting but fails to file a subsequent report, the policy will pay no more than the values shown on the most recent report for that location.



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 10th, Holly received a large shipment of goods, and on August 11th, a fire destroyed \$700,000 worth of inventory. How much will her policy pay?

Answer: \$300,000

Treatment of "Specific Insurance"

5. "Specific Insurance" means other insurance that:

- a. Covers the same Covered Property to which this endorsement applies; and
- b. Is not subject to the same plan, terms, conditions and provisions as this insurance, including this endorsement.

Reports must include values of any "**specific insurance,**" but the policy is excess over "specific insurance" and "specific insurance" values will not be included in premium calculations.

Table: 1.7

Value Reporting Penalties			
Limit of Insurance: \$100,000		Policy Period: 1/1/22-1/1/23	
First Report Late	Subsequent Reports Late	Under-Reported	In Excess Report
Policy pays 75% of amount that would otherwise have been paid	Policy pays no more than last report of values	Policy pays the percentage reported	Policy limit applies
Examples			
No report submitted	Last report received on 5/15/22 with April values of \$82,000	July report received on 8/25/22 Reported values: \$50,000 Actual values: \$100,000	September report received on 10/20/22 with values of \$125,000
\$100,000 loss on 4/20/22	\$100,000 loss on 8/10/22	\$40,000 loss on 9/5/22	\$125,000 loss on 10/27/22
Policy pays \$75,000	Policy pays \$82,000	Policy pays \$20,000 (\$50K/\$100K=50%)	Policy pays \$100,000



Knowledge Check



Directions: Read the following scenario and consider how the policy would respond.

A Named Insured has a Commercial Property Policy (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. After four months, the Named Insured, who has never submitted a report, has a \$10,000 covered loss to BPP. How much of the covered loss will the Named Insured be able to collect?

Part 2: Summary

The Insuring Agreement (Part A) of the Building And Personal Property Coverage Form outlines the types of property that are and are not covered by the policy.

There are three categories of Covered Property:

- Building
- Your Business Personal Property
- Personal Property of Others

There are 17 types of Property Not Covered, and most have coverage buy-back options.

There are three methods of writing Commercial Property insurance:

1. Specific Coverage

A specific limit applies to a building or personal property at a single location.

2. Scheduled Coverage

Separate limits of insurance are applied to two or more individually listed properties.

3. Blanket Coverage

This includes the value of all reported properties, either as a single limit for more than one property type at a single location, or as a single limit that applies to one or more types of property at two or more locations.

Blanket Coverage is one method for handling fluctuating values, and can be further modified with the Limitation On Loss Settlement – Blanket Insurance endorsement.


Other options for handling fluctuating values include:

- Peak Season Endorsement
- Value Reporting Form

There are several Value Reporting provisions which include penalties for inaccurate, missing, or late reports.

Endorsements in Part 2

Below is a list of the endorsements mentioned in Part 2 of this section. Note that there are several other endorsements that are briefly mentioned in the table showing possible coverage buy-backs for Property Not Covered.

	Additional Building Property CP 14 15 07 88
	Additional Property Not Covered CP 14 20 11 91
	Leased Property CP 14 60 07 88
	Your Business Personal Property – Separation Of Coverage CP 19 10 06 95
	Additional Covered Property CP 14 10 06 95
	Limitation On Loss Settlement – Blanket Insurance (Margin Clause) CP 12 32 06 07
	Peak Season Limit of Insurance CP 12 30 06 95
	Value Reporting Form CP 13 10 04 02

Part 2: Self-Quiz

Directions: Indicate which of the following items are covered under Building or as Your Business Personal Property on the Building And Personal Property Coverage Form by placing an “X” in the appropriate box.

	Building	Your Business Personal Property
a. Fixtures, including outdoor fixtures		
b. Furniture		
c. Permanently installed machinery and equipment		
d. Fire extinguisher to service the building		
e. Use interest of tenants' improvements and betterments		

Directions: Indicate which of the following items are Covered Property or Property Not Covered on the Building And Personal Property Coverage Form by placing an “X” in the appropriate box.

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

Section 1: Commercial Property Coverage Forms and Endorsements

Directions: Select the best answer(s) for the following questions. Some questions may have more than one correct response.

1. Jermaine owns an industrial laundry service, which he has insured on a Building And Personal Property Coverage Form. Jermaine wants to make sure that his owned washing machines and other permanently installed laundry equipment will be classified as Building Property. Which endorsement addresses this concern?
 - ☐ Additional Building Property
 - ☐ Additional Property Not Covered
 - ☐ Leased Property
 - ☐ Additional Covered Property
2. Fences are Property Not Covered under the Building And Personal Property Coverage Form. Which of the following can be used to buy back coverage?
 - ☐ Additional Building Property
 - ☐ Additional Property Not Covered
 - ☐ Limited Coverage for Unmanned Aircraft (Scheduled And/Or Blanket Coverage)
 - ☐ Additional Covered Property
3. Which of the following describes Scheduled Coverage?
 - ☐ A specific limit to a building or personal property is applied at a single location.
 - ☐ Separate limits of insurance are applied to two or more individually listed properties.
 - ☐ One limit is applied to more than one type of property at a single location.
 - ☐ One limit is applied to one or more types of property at two or more locations.
4. Which of the following could be considered advantages of using Blanket Coverage? (Select all that apply.)
 - ☐ When more than one type of property is insured, insurance can be applied where it is needed.
 - ☐ Blanket Coverage suspends the coinsurance requirement.
 - ☐ The insured can opt to have different covered causes of loss for different types of covered property.
 - ☐ Blanket Coverage handles fluctuating values between locations or fire-rated divisions.

Section 1: Commercial Property Coverage Forms and Endorsements

5. Which endorsement allows the Named Insured to increase coverage for a specified number of days to reflect predictable (planned or expected) seasonal increases in business personal property insurance?
- ☐ Limitation On Loss Settlement – Blanket Insurance (Margin Clause)
 - ☐ Peak Season Limit of Insurance
 - ☐ Value Reporting Form
 - ☐ Inland Marine Coverage Forms
6. A Named Insured has a CPP written on a value reporting form with a monthly reporting period on the Business Personal Property (BPP). The Named Insured has been reporting on time but under-reporting 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 regarding how the insured will be paid at the time of loss:
- ☐ They will only be able to receive up to the amount reported on the last report of values.
 - ☐ They will be able to receive the full amount since the loss was less than the reported amount.
 - ☐ They will only be able to receive 50% of the loss amount.
 - ☐ They will only be able to receive 75% of the loss amount.

Part 3: The Building And Personal Property Coverage Form, A(4)-D

Additional Coverages

Learning Objectives:

- 1.8 Apply the six Additional Coverages in the Building And Personal Property Coverage Form to explain how coverage applies in the event of a loss.
- 1.9 Identify relevant endorsements and describe how they modify the six Additional Coverages in the Building And Personal Property Coverage Form.

The Building And Personal Property Coverage Form has six Additional Coverages; these are the coverages that are automatically applied.

The six Additional Coverages are:

- 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

The Building And Personal Property 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

a. Debris Removal

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.

Section 1: Commercial Property Coverage Forms and Endorsements

This Additional Coverage pays to remove *debris of Covered Property*, as well as some other debris on the described premises *from a Covered Cause of Loss*. For this coverage to apply, the loss must occur during the policy period and the debris removal expenses must be reported to the insurer in writing within 180 days of the date of the direct physical loss or damage.

This Additional Coverage does not apply to:

- property that is not or would not be Covered Property
- the removal of deposits of mud or earth
- the cost to extract pollutants from land or water
- the cost to remove, restore, or replace polluted land or water
- property owned by or leased to the landlord where the Named Insured's described premises are located (unless there is a contractual responsibility to insure)



The most paid for direct physical loss plus debris removal expense is the applicable Limit of Insurance. The amount paid for debris removal expense is limited to 25% of the amount the insurer pays for direct physical loss or damage plus the deductible. (25% of [payment + deductible])

If no Covered Property has sustained direct physical loss or damage, the policy will pay a maximum of \$5,000 for removal of debris of other property at each location.

The policy will pay up to an additional \$25,000 if the Limit of Insurance is exhausted or debris removal expenses exceed the 25% limitation.

b. Preservation Of Property

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.

The Preservation Of Property Additional Coverage covers any direct physical loss or damage to *Covered Property* that is moved from the described premises to preserve it from loss or damage from a *Covered Cause of Loss*. This is true “all risk” coverage that pays for loss or damage to property:

- while it is in transit or while in temporary storage at another location, and
- within 30 days after the property is first moved.



Alert

The Preservation Of Property Additional Coverage *does not increase the Limit of Insurance*.



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 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 while attempting to protect them from fire damage.

c. Fire Department Service Charge

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.

This Additional Coverage pays up to \$1,000 for fire department services at each described premises unless a higher limit is shown in the Declarations. This coverage only applies to charges assumed by contract or agreement prior to the loss, or for charges required by a local ordinance—in other words, it does not pay for “voluntary charges.” The deductible does not apply to this Additional Coverage.



Alert

The Fire Department Service Charge Additional Coverage pays *in addition to the Limit of Insurance*.

There is an endorsement available to modify the Fire Department Service Charge Additional Coverage.

Higher Limits CP 04 08 10 12



The Higher Limits endorsement can be used as an alternative to stating a higher limit in the Declarations. This endorsement replaces the stated limit amount and can be listed on a schedule to apply to various coverages. This endorsement does not change the way the policy provides coverage.

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.

d. Pollutant Clean-up And Removal

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.

As mentioned earlier, the Debris Removal Additional Coverage excludes the extraction. This Additional Coverage addresses that exposure and covers the cost of extracting pollutants from the described premises—it does not cover the cost of testing for, monitoring, or assessing the effects of levels of pollutants. Note that release, seepage, etc., of the pollutants must be the result of a *Covered Cause of Loss*.

This is a limited coverage; the most that the policy will pay is \$10,000 for the sum of all covered expenses within a 12-month period, and expenses will only be paid if reported within 180 days of the occurrence of the Covered Cause of Loss. It should be noted that this Additional Coverage is not tied to damage to Covered Property, but rather to the occurrence of a Covered Cause of Loss.



Alert

The Pollutant Clean-up And Removal Additional Coverage pays *in addition to the Limit of Insurance*.

For some types of businesses, especially those that deal with chemicals, \$10,000 may not be sufficient for pollution extraction in the event of a Covered Cause of Loss. There is an endorsement available to modify the Pollutant Clean-Up And Removal Additional coverage.

Pollutant Clean Up And Removal Additional Aggregate Limit Of Insurance CP 04 07 10 91



This endorsement can be used to increase the amount of pollutant clean-up and removal coverage. It provides an additional Aggregate Limit of Insurance and is subject to a minimum deductible of \$1,000 (both the additional Aggregate Limit and the deductible are shown in the Schedule of the endorsement).

e. Increased Cost Of Construction

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.

Section 1: Commercial Property Coverage Forms and Endorsements

The Increased Cost Of Construction Additional Coverage applies only to *buildings* to which the Replacement Cost Optional Coverage applies, and it pays for 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. This coverage refers to a current ordinance or law (must be in force at the time of loss).

The policy will not pay:

- if the insured was required, and failed, to comply with an ordinance or law before the loss or damage occurred.
- for a loss resulting from “pollutants” and/or “fungus,” or the costs related to clean up and testing.

Coverage for each described building is limited to \$10,000 or 5% of the building’s Limit of Insurance, whichever is less.



Alert

The Increased Cost Of Construction Additional Coverage pays *in addition to the Limit of Insurance*.

The Increased Cost Of Construction Additional coverage does not pay until the property has been repaired or replaced, as long as the repairs are made within two years; this can be extended by the insurer in writing. If the insured decides 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. If the ordinance or law requires the building to be rebuilt at a new location, the most that will be paid is the increased cost of construction at the new premises or the Increased Cost of Construction limit.

The Increased Cost Of Construction Additional Coverage is not subject to any terms of the Ordinance or Law Exclusion that conflict with the provisions of this additional Coverage. The amount payable under this coverage is not subject to the limitations addressed in the Loss Payment and Valuation Conditions and the Replacement Cost Optional Coverage.



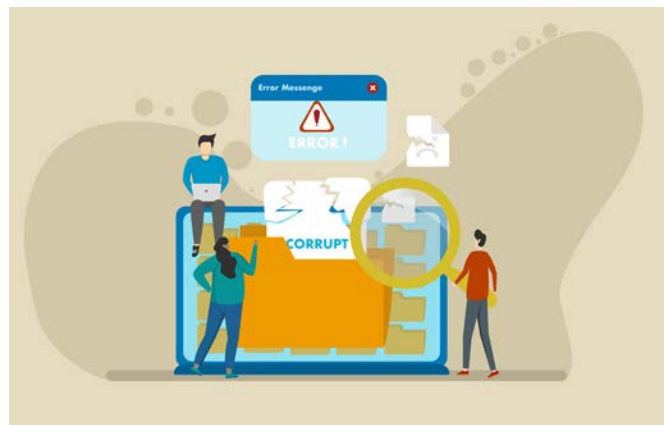
You have a Named Insured who has purchased a Limit of Insurance of \$200,000 for their building. As the result of a lightning strike, the Named Insured suffers severe damage to their building’s electrical system. Notably, the service panel is extensively damaged, and the local ordinance requires that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

f. Electronic Data

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.

The Electronic Data Additional Coverage pays for the cost of replacing or restoring electronic data that has been destroyed or corrupted due to a Covered Cause of Loss. Note that under this Additional Coverage, electronic data is defined in the same way as it is under Property Not Covered. This means that the Additional Coverage does not apply to "stock" of prepackaged software or to electronic data that is used to operate building features such as elevators, HVAC systems, or security systems.



Note that this Additional Coverage only applies to Covered Causes of Loss outlined in the policy—if a Covered Cause of Loss is added by endorsement, the additional Cause of Loss will *not apply* to this Additional Coverage. The covered perils for this Additional Coverage include computer viruses, but manipulation of the computer system by an employee or hired entity is not covered.

Section 1: Commercial Property Coverage Forms and Endorsements

There is a \$2,500 *aggregate limit* available each policy year for the Electronic Data Additional Coverage, and the limit applies regardless of the number of occurrences, premises, locations, or computer systems.



Alert

The Electronic Data Additional Coverage pays *in addition to the Limit of Insurance*.

The Higher Limits endorsement can be used to modify the Electronic Data Additional Coverage.

Higher Limits CP 04 08 10 12



As with the Fire Department Service Charge, the Higher Limits endorsement can raise the \$2,500 aggregate limit available for Electronic Data coverage.

Another way to address this exposure is through **Electronic Data Protection (EDP) Policies** or by adding EDP coverage by endorsement to an existing property policy. This type of insurance covers damage to computers, media, and data and fills some of the gaps left by the standard property policy.



Knowledge Check



Directions: Read the scenario and respond to the prompt that follows.

Your client, Debbie Owens, operates a mattress manufacturing facility in a remote, difficult-to-access location. Debbie is concerned about the cost of Debris Removal in the event of a loss.

Explain to Debbie how the Debris Removal Additional Coverage will respond in the event of a loss, as well as her option(s) for increasing her coverage through endorsement.

Coverage Extensions

Learning Objectives:

- 1.10 Apply the seven Coverage Extensions in the Building And Personal Property Coverage Form to explain how coverage applies in the event of a loss.
- 1.11 Identify relevant endorsements and describe how they modify the seven Coverage Extensions in the Building And Personal Property Coverage Form.

There are seven Coverage Extensions in the Building and Personal Property Coverage Form. They are:

- 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 Building And Personal Property 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

Coverage Extensions differ from Additional Coverages because, rather than adding a new coverage, they extend an existing coverage. Another difference is that Coverage Extensions require at least 80% coinsurance or a Value Reporting Form.

a. Newly Acquired Or Constructed Property

This Coverage Extension has three key parts:

1. Buildings
2. Your Business Personal Property
3. Period of Coverage

(1) Buildings

If the policy covers Building, coverage can be extended to new buildings while being constructed on the described premises. Buildings the Named Insured acquires at other locations must be intended for similar use as the building described in the Declarations or as a warehouse for coverage to apply.

The policy will not pay more than \$250,000 for loss or damage at each building.

Coverage for newly acquired or constructed property can be modified with the following endorsement:

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.



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



This endorsement replaces the \$250,000 limit with the Newly Acquired Or Constructed Property limit shown in the Schedule of this endorsement.

(2) Your Business Personal Property



If the policy covers Your Business Personal Property, coverage may be extended to include business personal property (including that which has been newly acquired) at newly acquired locations. Note that this coverage *does not apply* at fairs, trade shows, or exhibitions. The most that the policy will pay for loss or damage under this Coverage Extension is \$100,000.

This Coverage Extension *does not apply* to personal property of others in the temporary possession of the Named Insured.

(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

(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.

The period of automatic coverage under this Coverage Extension is limited to the following (whichever comes first):

- policy expiration,
- 30 days after the acquisition or start of construction, or
- the Named Insured reports values to the insurer.

Note that while this is automatic coverage, the insurer will charge additional premium for values reported back to the date on which the property was acquired or construction began.

b. Personal Effects And Property Of Others

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.

This Coverage Extension provides Your Business Personal Property coverage to personal effects owned by the Named Insured and others involved in the business such as officers, partners, and employees. Note that there is *no theft coverage for personal effects*. It also extends coverage to the personal property of others that is in the Named Insured's care, custody, or control.

The most this Coverage Extension will pay is \$2,500 at each described premises, and payment will only be made to the owner of the property.

c. Valuable Papers And Records

This Coverage Extension allows the Named Insured to extend Your Business Personal Property coverage to include the cost of replacing or restoring lost information on valuable papers when *duplicates do not exist*. Note that this coverage does not extend to electronic data.

Coverage is applied on a named perils basis only—if the Special Form applies, then coverage is limited to the “**specified causes of loss**” as defined in that form. Specified causes of loss will be discussed in greater detail in Section 2 of this course.

The most that this Coverage Extension will pay is \$2,500 at each described premises.



The **Higher Limits CP 04 08 10 12 endorsement** can be used to increase the limit available for Valuable Papers And Records coverage.

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

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

This Coverage Extension allows the Named Insured to apply coverage to the Named Insured's Covered Property while it is away from the described premises if it is:

- temporarily at a location that is not owned, leased, or operated by the Named Insured,
- in storage at a leased location, only if the lease was executed after the start of the current policy term, or
- at any fair, trade show, or exhibition.



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.

This Coverage Extension does not apply to property that is:

- in or on a vehicle, or
- in the care, custody, or control of salespersons unless at a fair, trade show, or exhibition.

The most that will be paid under this Coverage Extension is \$10,000.

There is an endorsement available that can modify the Property Off-Premises Coverage Extension:

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



This endorsement extends Your Business Personal Property coverage to apply to business personal property indicated in the Schedule. To qualify for coverage, property must be:

- temporarily away from the described premises in the course of the Named Insured's daily business activities, and
- In the care, custody, or control of the Named Insured or an authorized employee (including temporary employees and leased workers).

This endorsement does not apply to any of the following:

- “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 care, custody, or control of the Named Insured’s salespersons unless the property is at a fair, trade show, or exhibition
- Property in the care, custody, or control of a common or contract carrier or bailee for hire
- Theft from a land motor vehicle unless there is forced entry into a securely locked body or compartment of the vehicle
- Property while it is airborne or waterborne
- Property while outside of the Coverage Territory.

It is important to note that the Limit of Insurance shown in the Schedule is the most that will be paid in any one occurrence. This endorsement cannot be stacked with other coverages.

e. Outdoor Property

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.

Covered Perils for Outdoor Property



F - Fire



L - Lightning



A - Aircraft



R - Riot



E - Explosion

This Coverage Extension extends some coverage to limited outdoor property, for a limited set of covered perils. The following graphic shows how the acronym F.L.A.R.E can be used to remember the perils listed in the Outdoor Property Coverage Extension. Note that this does not include several common perils such as wind or vehicle damage.

Coverage includes the expense of debris removal. This Coverage Extension will not pay more than \$1,000 total, and not more than \$250 for any one tree, shrub, or plant.

There are multiple endorsements available to modify coverage for certain types of outdoor property (these endorsements were listed previously in the “Property Not Covered” topic).

Additional Covered Property CP 14 10 06 95



This endorsement can be used to insure fences as it takes any item shown in the endorsement schedule from Property Not Covered to Covered Property. The perils covered by this endorsement are subject to the Causes Of Loss form selected (Basic, Broad, or Special).

Radio Or Television Antennas CP 14 50 10 00



This endorsement is used to insure radio or television antennas for additional limits and/or additional causes of loss. Under this endorsement, the definition of Covered Property includes satellite dishes, lead-in wiring, and masts or towers.



The perils covered by this endorsement are subject to the Causes Of Loss form selected (Basic, Broad, or Special), and there are exclusions for dampness or dryness of atmosphere, changes in or extremes of temperature, or rain, snow, ice, or sleet.

Outdoor Trees, Shrubs And Plants CP 14 30 10 12



This endorsement is used to insure outside trees, shrubs, and plants for increased limits and/or additional causes of loss. The limit of insurance applies to each tree, shrub, or plant, with a separate

limit for “all items.”

The perils covered by this endorsement are subject to the Causes Of Loss form selected (Basic, Broad, or Special), plus exclusions for dampness or dryness of atmosphere, changes in or extremes of temperature, or rain, snow, ice, or sleet. Loss caused by vehicles can also be excluded from coverage.



f. Non-owned Detached Trailers

This Coverage Extension states that the Named Insured may apply Your Business Personal Property coverage to loss or damage to non-owned trailers if:

- the trailer is used in the Named Insured's business,
- the trailer is in the care, custody, or control of the Named Insured at the described premises, and
- the Named Insured has a contractual responsibility to pay for loss or damage to the trailer.

This Coverage Extension will not pay for loss or damage that occurs:

- while the trailer is attached to any motorized vehicle or conveyance, or
- during hitching or unhitching operations or if the trailer becomes accidentally unhitched.

The most that will be paid for this Coverage Extension is \$5,000 unless a higher limit is shown in the Declarations. It is excess coverage over the amount due from any other insurance covering the property.

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.



The **Higher Limits CP 04 08 10 12** endorsement can be used to modify the coverage limit for Non-Owned Detached trailers.

g. Business Personal Property Temporarily In Portable Storage Units

This provision extends coverage to Your Business Personal Property that is being temporarily stored in a portable storage unit, including a detached trailer, that is located within 100 feet of the building or structure or within 100 feet of the described premises—whichever is greater. Coverage under this extension is provided for a maximum of 90 days from when the storage unit is brought onto the premises. This means that coverage will not apply to a storage unit that has been on the premises for more than 90 days, even if the business personal property has not been stored there the entire time.

This Coverage Extension does not apply if loss or damage to the business personal property in temporary storage is otherwise covered and is not applicable to loss or damage to the storage unit itself.



The most that will be paid for loss or damage to business personal property in temporary portable storage is \$10,000. This can be modified with the **Higher Limits—CP 04 08 10 12** endorsement.



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.

Knowledge Check



Directions: Read the scenario and respond to the prompts.

1. The Named Insured has a CPP with 80% coinsurance on a \$750,000 building. They purchase a warehouse valued at \$300,000. Describe the extent of the coverage (if any) for this newly acquired property under the BPPCF.

2. Describe any endorsements that might modify coverage for newly acquired property.

Exclusions and Limitations, Limits of Insurance, and Deductible

Learning Objectives:

- 1.12 Apply the Limits of Insurance and Deductibles in the Building And Personal Property Coverage Form to explain how the policy will respond in the event of loss or damage.
- 1.13 Describe how endorsements can modify the Limits of Insurance and Deductibles in the Building And Personal Property Coverage Form.

Exclusions and Limitations

B. Exclusions And Limitations

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

The Building And Personal Property Coverage Form states that the applicable Causes Of Loss form should be reviewed to examine and analyze exclusions and limitations. This will be discussed in greater detail in Section 2 of this course.

Limits Of Insurance

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.

The Building And Personal Property 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

Section 1: Commercial Property Coverage Forms and Endorsements

The most that the policy will pay in any single occurrence is the applicable Limit of Insurance shown in the Declarations. The policy will not pay more than \$2,500 per sign, whether the sign is attached or not.

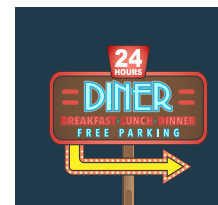
The following Additional Coverages have separate Limits of Insurance:

- Fire Department Service Charge
- Pollutant Clean-up and Removal
- Increased Cost of Construction
- Electronic Data
- There is an endorsement available to modify the \$2,500 limit on signs.



Outdoor Signs—CP 14 40 06 07

This endorsement can be used to insure outdoor signs for additional limits by replacing the \$2,500 limit on signs in the Building And Personal Property Coverage Form. Limits must be scheduled on the endorsement. This endorsement is subject to the Causes Of Loss form selected (Basic, Broad, or Special).



Deductible

For each occurrence, the loss amount is reduced if required by the Coinsurance Condition or Agreed Value Optional Coverage. This means that the deductible reduces the amount of loss, not the Limit of Insurance.

If the adjusted amount of loss is less than or equal to the deductible, the insurance company will not cover that loss. If the adjusted amount of loss is greater than the deductible, the insurer will subtract the deductible from the adjusted amount of loss and pay the resulting amount (not to exceed the 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.

If more than one item of Covered Property is damaged and separate Limits of Insurance apply, losses are not combined in determining the application of the deductible; however, the deductible is applied only once. The examples listed in Part D of the BPPCF illustrate how the deductible is applied to separate Limits of Insurance.

Section 1: Commercial Property Coverage Forms and Endorsements

Deductibles can be modified to reduce insurance premiums or make a risk more acceptable. There are multiple endorsements available to modify the deductible; the following have been selected for discussion in this course.

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:

\$ 60,100
– 250
\$ 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

Deductibles By Location CP 03 29 04 18



This 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 on the Schedule. In the event of a single occurrence at multiple locations, the Deductibles By Location endorsement will apply a single, separate deductible at each location.

Multiple Deductible Form CP 03 20 04 18



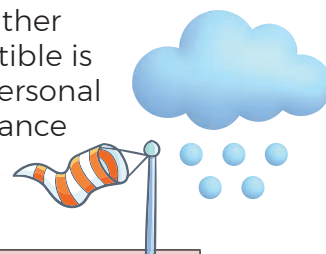
This endorsement also modifies the Deductible provision to enable an insured to have separate deductibles on different locations. The endorsement also enables the insured to have separate deductibles on Windstorm or Hail and Theft at different locations, by indicating the appropriate symbol on the Schedule.

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



This 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 business personal property at each building. The endorsement provides guidance on how the deductible is calculated for both “specific insurance” and “blanket insurance.”



Note: Wind/Hail deductible buy-back insurance policies are an option for high percentage deductibles. This allows an insured to “buy back” a portion of the deductible for a lesser cost than what the actual deductible would be in the event of a covered loss.



Knowledge Check



Directions: Review the following scenario and explain if coverage applies.

Tom has put up a new outdoor sign for his business that is valued at \$5,000. It is completely damaged by a Covered Cause of Loss. How much will Tom receive for the loss, disregarding any deductibles? Are there any endorsements that would have benefited Tom in this scenario?

Part 3: Summary

In this portion of the course, we reviewed parts 4 and 5 of the BPPCF Insuring Agreement: six Additional Coverages and seven Coverage Extensions.

The six Additional Coverages are:

- Debris Removal
- Preservation Of Property
- Fire Department Service Charge
- Pollutant Clean-up And Removal
- Increased Cost Of Construction
- Electronic Data

The seven Coverage Extensions are:













- Newly Acquired Or Constructed Property
- Personal Effects And Property of Others
- Valuable Papers And Records
- Property Off-Premises
- Outdoor Property
- Non-owned Detached Trailers
- Business Personal Property Temporarily In Portable Storage Units

Many of the Additional Coverages and Coverage Extensions provide only limited coverage, but some can be modified through endorsements.

Part 3 also examined Sections B, C, and D of the BPPCF: Exclusions and Limitations, Limits of Insurance, and Deductible. There are multiple endorsements available to modify how deductibles are applied.

Endorsements in Part 3

Below is a list of the endorsements mentioned in Part 3 of this section.

	Debris Removal Additional Insurance CP 04 15 10 12
	Higher Limits CP 04 08 10 12
	Pollutant Clean-up And Removal Additional Aggregate Limit Of Insurance CP 04 07 10 91
	Newly Acquired Or Constructed Property - Increased Limit CP 04 25 10 90
	Specified Business Personal Property Temporarily Away From Premises CP 04 04 10 12
	Additional Covered Property CP 14 10 06 95
	Radio Or Television Antennas CP 14 50 10 00
	Outdoor Trees, Shrubs And Plants CP 14 30 10 12
	Outdoor Signs CP 14 40 06 07
	Deductibles By Location CP 03 29 04 18
	Multiple Deductible Form CP 03 20 04 18
	Windstorm Or Hail Percentage Deductible CP 03 21 10 12

Part 3: Self-Quiz

Directions: Indicate whether the following items are an Additional Coverage or a Coverage Extension by placing an “X” in the appropriate box.

	Additional Coverage	Coverage Extension
a. Increased Cost Of Construction		
b. Outdoor Property		
c. Fire Department Service Charge		
d. Personal Effects And Property Of Others		
e. Non-owned Detached Trailers		
f. Electronic Data		

Directions: Select the best answer(s) for the following questions. Some questions may have more than one correct response.

- 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 Named Insured moves some of the contents to prevent damage. Which of the following is an accurate statement?
 - ☐ Preservation Of Property is included as an Additional Coverage and provides coverage for only 24 hours following the loss.
 - ☐ Preservation Of Property is included as an Additional Coverage and provides coverage for 30 days after covered property is first moved.
 - ☐ Preservation Of Property is included as an Additional Coverage but only applies to the building, not business personal property.
 - ☐ Preservation Of Property is included as an Additional Coverage for temporary storage, but does not apply to transit.
- Which of the following endorsements can be used to raise the limits available for Additional Coverages and Coverage Extensions such as Fire Department Service Charge, Electronic Data, Valuable Papers and Records, and Non-owned Detached Trailers?
 - ☐ Additional Covered Property
 - ☐ Debris Removal Additional Insurance
 - ☐ Newly Acquired Or Constructed Property - Increased Limit
 - ☐ Higher Limits

Section 1: Commercial Property Coverage Forms and Endorsements

3. Which of the following statements is true regarding Personal Effects And Property Of Others? (Select all that apply).

- ☐ It is provided as an Additional Coverage.
- ☐ It is provided as a Coverage Extension.
- ☐ It will pay up to \$2,500 at each location for personal effects owned by the Named Insured and others involved in the business.
- ☐ It includes up to \$1,000 coverage at each location for the theft of personal effects.

4. The BPPCF states that the policy will not pay more than \$2,500 per sign, whether the sign is attached or not.

True

False

5. If more than one item of Covered Property is damaged and separate Limits of Insurance apply, losses are not combined in determining the application of the deductible, and separate deductibles apply for each Limit of Insurance.

True

False

6. Both the Deductibles By Location and Multiple Deductible Form endorsements enable an insured to have separate deductibles on different locations, but they differ in terms of how the deductible is applied in the event of a single occurrence at multiple locations.

True

False

Part 4: The Building And Personal Property Coverage Form, E-H and Additional Coverage Forms

Loss Conditions

Learning Objectives:

- 1.14 Apply the seven Loss Conditions in the Building And Personal Property Coverage Form to explain how the policy will respond in the event of loss or damage.
- 1.15 Identify relevant endorsements and describe how they modify the seven Loss Conditions in the Building And Personal Property Coverage Form.

There are seven Loss Conditions described in the Building And Personal Property Coverage Form. These conditions apply *in addition* to the Common Policy Conditions and the Commercial Property Conditions.

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

This subsection will examine these seven Loss Conditions in greater detail.

1. Abandonment

This condition states plainly that the insured cannot abandon any property to the insurer.

1. Abandonment

There can be no abandonment of any property to us.

2. Appraisal

This condition is used to determine the value of property or the amount of loss. Appraisal can be requested by the insurer or the Named Insured.

The Building And Personal Property 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

Process for Selection of Appraisers

Both the insurer and the Named Insured will select a qualified and impartial appraiser, and the appraisers will select an umpire (a judge in the appraisers' jurisdiction will select the umpire if the appraisers cannot agree).

Appraisal Process

Each of the appraisers will submit separate statements indicating the value of the property and the loss amount. In the event of a disagreement, they will submit their differences to the umpire. A decision agreed to by any two will be binding.

Each party will pay its chosen appraiser, and the parties will share the cost of the umpire and other appraisal expenses equally.

Even though the appraisal decision regarding the value may be binding, the insurance company still retains the right to deny the claim.

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

This Loss Condition outlines the duties of the Named Insured, which are summarized as follows:

1. Notify the police if a law may have been broken. This means that if the insured suspects theft, fire, vandalism, arson, etc., they need to notify the police.
2. Notify the insurer promptly of the loss or damage, with a description of the property involved.
3. Provide the insurer with a description of how, when, and where the loss or damage occurred.
4. Take all reasonable steps to prevent further damage to Covered Property and record all necessary expenses to do so for *consideration* in the settlement of the claim. (Note: consideration does not mean that the insurer is guaranteed to pay these expenses.) If possible, set property aside for examination. Any expenses paid by the insurer will be within the Limit of Insurance.



Section 1: Commercial Property Coverage Forms and Endorsements

5. Give complete inventories of damaged and undamaged property, if requested by the insurer.
6. Allow the insurer to inspect the property and examine books and records. (This includes allowing the insurer to take samples of property for inspection, testing, and analysis and to make copies of books and records).



7. Send a signed, sworn proof of loss containing the information requested within 60 days of the request from the insurer.
8. Cooperate with the insurer in the investigation and settlement of the claim.

This Loss Condition also gives certain rights to the insurer, including the right to examine any insured under oath without other insureds present.

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

This Loss Condition outlines the options for the insurer to pay the insured for the loss, which are as follows:

1. Pay the value.
2. Pay the cost of repairing or replacing.
3. Take some or all of the property at an agreed or appraised value.
4. Repair, rebuild, or replace the property with other property of like kind or quality.
This does not include increased costs of construction resulting from any ordinance or law.

The insurer's option for payment will be expressed within 30 days after the receipt of the proof of loss.

The insurer will not pay more than the Named Insured's financial interest in the property. If someone other than the Named Insured owns the property, the insurer may choose to deal directly with the property owners, which may include paying the loss settlement to the property owner directly. The insurer may also opt to defend the Named Insured from any lawsuits that may arise from claims of property owners (the insurance company will do this at its own expense).

The insurer will pay for covered loss or damage within 30 days after the receipt of the sworn proof of loss, as long as the Named Insured has complied with all terms, and either both parties have agreed upon the loss amount or an appraisal has been awarded.

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.

The Loss Payment Condition also outlines specific provisions for the loss settlements involving a **party wall**, which is defined as “a wall that separates and is common to adjoining buildings that are owned by different parties.”

The provisions state that the insurer will pay the Named Insured a proportion of the loss to the party wall based on their interest in the wall. However, if the Named Insured elects to repair or replace the building but the owner of the adjacent building does not, the insurer will pay the full value of the wall, and all policy provisions will still apply, including the Limits of Insurance and coinsurance.

There is an endorsement available to modify the Loss Payment Condition.

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.

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 the insurer’s payment for loss or damage. This endorsement is used for:

- Loss Payees
- Lender’s Loss Payees
- Contract Sellers
- Building Owners

Loss Payees, Contract Sellers, and Building Owners have no greater rights than the Named Insured under this endorsement—if a claim is denied to the Named Insured, it will be denied to these persons/entities as well.

The lender’s Loss Payee will have similar rights to those of a mortgageholder and will receive notice of cancellation or non-renewal.

5. Recovered Property

This Loss Condition states that both the Named Insured and the insurer are responsible for notifying the other party of any property recovered after the loss settlement.

The Named Insured has the option of accepting the return of the property or not. If the Named Insured chooses to have the property returned, they will be responsible for paying back the amount they received for the property in the loss settlement.

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

Description of Terms

This Loss Condition begins with a Description of Terms, which defines the terms building and vacant as follows:

a) When the policy is issued to a tenant:

- **Building** means the unit or suite rented or leased to the tenant.
- The building is **vacant** when it does not contain enough business personal property to conduct customary operations.

b) When the policy is issued to the owner or general lessee of the building:

- Building means the entire building.
- The building is vacant unless at least 31% of the total square footage is:
 - rented to a lessee or sub-lessee and used by the renter to conduct customary operations, and/or
 - used by the building owner to conduct customary operations.

The Description Of Terms also indicates that *buildings under construction or renovation are not considered vacant*.

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.

Vacancy Provisions

The Vacancy Provisions apply when the building has been vacant for more than 60 consecutive days before the loss or damage occurs.

The first Vacancy Provision *excludes* the following specifically listed causes entirely, even if they are Covered Causes of Loss:

- Vandalism
- Sprinkler leakage, unless the system has been protected against freezing
- Building glass breakage
- Water damage
- Theft
- Attempted theft

The second Vacancy Provision states that payment the insurer otherwise would pay will be reduced by 15% for all other Causes of Loss.

The following examples illustrate how these provisions are applied.



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 Named Insured's discovery. Accordingly, the vandalism damage is not covered.



Four months ago, the Named Insured purchased a small building with four separate office spaces. The building is only 25% leased and used by the lessees for customary operations. 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%.

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%.

Section 1: Commercial Property Coverage Forms and Endorsements

There are endorsements available to modify the Vacancy Loss Condition.

Vacancy Permit CP 04 50 07 88



This endorsement is 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. Vandalism and/or sprinkler leakage can still be excluded under this endorsement.

Vacancy Changes CP 04 60 10 12



This endorsement is 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.

Check-In



Directions: Select the best response for the following question. There is only one correct answer choice.

The Named Insured has a CPP with a building limit of \$1,000,000. The building has been vacant for three months. Which of the following is an accurate statement under the BPPCF?

- ☐ There is no coverage under the BPPCF after a building has been vacant for more than 60 days.
- ☐ There is coverage provided under the BPPCF up to 30 days but only for damage caused by the Covered Causes of Loss.
- ☐ There is coverage for fire, but the payment is reduced by 10%.
- ☐ 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%.

7. Valuation

The Valuation Loss Condition states that the value of property will be determined on an actual cash value (ACV) basis unless otherwise provided for in parts b.-e. of the Valuation Condition, which are summarized as follows:

b. Building damage of \$2,500 or less

If the Additional Condition, Coinsurance, has been satisfied and the cost to repair or replace the damaged building property is \$2,500 or less, the policy will pay for the cost of repairs or replacement, on a replacement cost basis, not including increased costs of construction due to compliance with ordinance or law.

The following property will be valued at ACV, even when it is attached to the building:

- awnings or floor coverings
- appliances for refrigerating, ventilating, cooking, dishwashing, or laundering
- outdoor equipment or furniture.



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.

c. "Stock" sold but not delivered

"Stock" that has been sold but not delivered will be valued at the selling price, minus any discounts or expenses the Named Insured would have otherwise incurred.

d. Glass

Glass will be valued at the cost of replacement with any safety-glazing material, if required by law.

e. Tenants' Improvements and Betterments

Part "e." of the Valuation Condition specifies the special valuation provisions for tenants' improvements and betterments, depending on whether repairs are made promptly or if they are paid for by others.



Alert

As previously stated, the Replacement Cost Optional Coverage may be activated on the Declarations. If so, then RC replaces ACV in this Valuation Loss Condition. The Replacement Cost Optional Coverage will be explained in greater detail later in this course.

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.

There are multiple endorsements available to modify the Valuation Loss Condition. The following have been selected for discussion in this course.

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



This endorsement allows the Named 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



This endorsement allows the Named 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



This endorsement allows the Named 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



This endorsement allows the Named Insured to replace personal property with the most closely equivalent property available. Coinsurance does not apply.

Functional Building Valuation CP 04 38 09 17



This endorsement is designed to insure buildings such as:

- an older building whose architectural style has become obsolete or simply unnecessary to the Named Insured's current use
- buildings the Named Insured would not or could not replace as-is.

This provides a means of insuring buildings to reflect use, rather than construction. The policy will pay differently depending on whether the Named Insured experiences a total or partial loss. In the event of a *total loss*, payment will be for a "less costly building that is functionally equivalent..." In the event of a *partial loss*, payment will be for "less costly material, if available, in the architectural style that existed before the loss..."



Caution!

If the building is not repaired or replaced, the policy only pays the smallest of:

- the Limit of Insurance
- the market value (a defined term that means the price which the property might be expected to realize if offered for sale in a fair market, exclusive of land), or
- the cost to repair or replace with less costly material in the same architectural style.

Coinurance does not apply. Ordinance or Law coverage is applicable under this endorsement and is not additional insurance. Losses under the following coverages are included within the Limit of Insurance shown in the endorsement schedule:

- Coverage 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

A Post-Loss Ordinance Or Law Option is available. These coverages will be examined in greater detail in the next section of this course.



Note:

Ordinance or law issues must be considered when setting limits.

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



This endorsement is 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.

Coinurance does not apply. This endorsement does not apply to personal effects, property of others, leased property, or “stock.”



There are several steps necessary to write this endorsement:

1. **Select the limit for Green Upgrades.**

This is the maximum amount that will be paid for Green Upgrades.

2. **Select an Increased Cost of Loss Percentage.**

The 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 percentage selected.

3. **If coverage for Related Expenses is 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 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.

▶▶ Knowledge Check



Directions: Read each of the following scenarios and identify the endorsement that would best meet the needs of the client described. Also state which Loss Condition the endorsement modifies.

1. The Named Insured owns an older building and wants to insure it for a limit that reflects the use of less costly materials in the event the building suffers a significant loss.

2. The Named Insured is a tenant responsible for insuring the building they occupy and wants to make sure that their Building Owner will be included in payments from the insurance company.

Additional Conditions

The Building And Personal Property Coverage Form includes two Additional Conditions which apply in addition to the Common Policy Conditions and the Commercial Property Conditions.

1. Coinsurance

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.

This Additional Condition states that the policy will not pay the full amount of any loss if the value at the time of the loss multiplied by the coinsurance percentage shown in the Declarations is greater than the Limit of Insurance for the property.

The form goes on to explain the formula used to calculate the coinsurance penalty, which was discussed earlier in this course. (Remember: Did/Should x Loss).

The Building And Personal Property 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



Caution!

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

This Additional Condition states that trustees are included in the definition of mortgageholder. It also explains that the insurer will pay mortgageholders in order of precedence, as shown on the Declarations, for loss or damage to buildings.

The condition then lists the separate rights and duties of mortgageholders, which are summarized as follows.

Mortgageholder Rights and Duties

1. Mortgageholders have the right to receive loss payment, even if they have started foreclosure or similar proceedings on the building/structure.
2. If the claim is denied because of the actions of the insured, the mortgageholder still has the right to receive loss payment if they do the following:
 - pay any premium that the Named Insured has failed to pay, at the request of the insurer,
 - submit a signed, sworn proof of loss within 60 days after receiving notice of the Named Insured’s failure to do so, and
 - notify the insurer of any change in ownership, occupancy, or substantial change in risk.
3. If the insurer pays the mortgageholder for any loss and damage and denies payment to the Named Insured, the mortgageholder’s rights will be transferred to the insurer to the extent of the amount paid to the mortgageholder, and the mortgageholder’s right to recover the full amount of their claim will not be impaired.
 - The insurance company may elect to pay the mortgageholder the whole principal on the mortgage, plus accrued interest, in which case, the mortgage and note will be transferred to the insurer, and the Named Insured will pay their remaining debt to the insurer.



4. If the insurer cancels the policy, they will give written notice to the mortgageholder at least 10 days before the effective date of cancellation for nonpayment, or at least 30 days in advance if canceling for any other reason.
5. If the insurer elects not to renew the policy, they will give the mortgageholder written notice at least 10 days prior to the policy expiration.

Optional Coverages

Learning Objective:

- 1.16 Explain the purpose of the four Optional Coverages and how these coverages apply when activated on the Declarations of the Building And Personal Property Coverage Form.

G. Optional Coverages

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

There are four Optional Coverages available under the Building And Personal Property Coverage Form. They are:

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

This topic reviews how these Optional Coverages impact the policy when triggered on the Declarations.

The Building And Personal Property 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

1. Agreed Value

As discussed in Part 1 of this section, the Agreed Value Optional Coverage suspends the coinsurance requirement. Beware—this does not remove the Coinsurance clause; it *suspends* it! This coverage has an expiration date, and if the expiration date is not extended, coinsurance will be reinstated when the coverage expires.

Note that the Agreed Value option carries an additional premium charge of 5%.



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



When Inflation Guard is triggered, the Limit of Insurance is increased by the percentage shown in the Declarations. The Limit is increased daily throughout the policy period, and the premium is charged *pro-rata*, meaning that an 8%

annual increase will incur a 4% additional premium.

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

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.

This Optional Coverage replaces ACV in the Valuation Loss Condition. Replacement cost does not apply to:

- Personal property of others (does not include tenants' improvements and betterments)
- Contents of a residence
- Works of art, antiques, or rare articles
- "Stock," unless the Including "Stock" option is shown in the Declarations

When this coverage is triggered, the Named Insured may still elect to make a claim for loss or damage on an Actual Cash Value basis. If the Named Insured elects to have the claim settled on an ACV basis, they can still make a claim for the additional coverage provided by this option as long as they notify the insurer within 180 days following the loss or damage.

When the Replacement Cost option is selected, the policy will not pay until the lost or damaged property has actually been repaired or replaced. The property must be repaired or replaced as soon as reasonably possible following the loss or damage in order for coverage to apply.

Section 1: Commercial Property Coverage Forms and Endorsements

Under this Optional Coverage, the policy will pay the least of:

- the applicable Limit of Insurance,
- the cost to replace with other property that is of comparable material and quality and that is used for the same purpose, or
- the amount actually spent that is necessary to repair or replace the property.

Note that the Replacement Cost Optional Coverage *does not apply* to “increased costs of construction” due to complying with ordinances or laws. However, there is an endorsement available to address increased costs of rebuilding resulting from a disaster (sometimes referred to as **demand surge**).

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.

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



During a disaster, claims processing can become delayed due to the surge of claims.

Response times can become erratic, ranging anywhere from two days to two weeks if not longer. Contractors and repair services can become unavailable for lengthy periods of time as well. In addition to the length of time it may take for repairs to begin, the cost of repairs can increase due to expediting services and materials, along with other factors.

This endorsement increases the Limit of Insurance for expenses for labor and/or building materials for repair or replacement of property damaged as the result of a disaster if the total cost of repair or replacement exceeds the applicable Limit of Insurance due to such increase in expenses.

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.

This endorsement has special conditions that must be met, including the condition that the event that caused the covered loss must either result in the declaration of a state of disaster by state or federal authorities or have occurred within close proximity to such an event, as underlined in the partial copy of the endorsement shown on the previous page.



4. Extension Of Replacement Cost To Personal Property Of Others

There are two actions required for this Optional Coverage to apply:

1. The Replacement Cost Optional Coverage must be shown in the Declarations.
2. If this Extension is shown as applicable in the Declarations, paragraph 3.b.(1) will be deleted and Replacement Cost coverage will be triggered for personal property of others.

Payment for the replacement cost of personal property of others is limited to the lesser of:

- the amount required by contract (if in place), or
- the replacement cost of the 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.

Knowledge Check



Directions: Read each of the scenarios below and answer the questions that follow.

1. A client tells you that he wants the Agreed Value Optional Coverage because it “gets rid of coinsurance.” How would you explain to the client how Agreed Value actually works with respect to coinsurance? Is there anything else the client should know about this coverage?

2. A client tells you she is interested in Inflation Guard but is concerned about how it will impact her premiums. What would you say to the client to explain how Inflation Guard impacts premiums?

Legal Liability Coverage Form CP 00 40 10 12

The Legal Liability Coverage Form (LLCF) is a property coverage form (not an endorsement) that, among other uses, provides an alternative to Damage To Premises Rented To You on the Commercial General Liability (CGL) policy.

Even though the Building And Personal Property Coverage Form provides coverage for insurable interest, it is not 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 Named Insured's care, custody, or control.

For example, it may be needed by tenants for perils in addition to fire, such as water damage, vehicle damage, etc.

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.

Section 1: Commercial Property Coverage Forms and Endorsements

In order to use this form, the Named Insured must have a legal obligation to pay damages. Coverage under this form applies to tangible property of others (real property and/or personal property) in the Named Insured's care, custody, or control. Coverage is subject to the applicable Causes Of Loss form shown in the Declarations.

The LLCF is unique in that it has characteristics of both property and liability coverage forms. For example, it is similar to a property form in that the Named Insured selects either the Basic, Broad, or Special Causes Of Loss form to attach to the Legal Liability Coverage Form. It bears similarities to the CGL Coverage Form in that it has similar legal liability obligation wording, i.e., "We will pay those sums you become legally obligated to pay as damages...."

The insurance protection provided will not apply to liability assumed by contract as the Causes Of Loss form contains an exclusion for liability assumed under contract.

Building Property Tenant's Policy

Two other endorsements are available to cover building property when the Named Insured is a tenant and is contractually obligated to insure this property, or when the tenant contractually assumes responsibility for loss or damage:

- Scheduled Building Property Tenant's Policy CP 14 01 09 17
- Unscheduled Building Property Tenant's Policy CP 14 02 09 17

POLICY NUMBER:

COMMERCIAL PROPERTY
CP 14 01 09 17**THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.****SCHEDULED BUILDING PROPERTY
TENANT'S POLICY**

This endorsement modifies insurance provided under the following:

BUILDING AND PERSONAL PROPERTY COVERAGE FORM
STANDARD PROPERTY POLICY**SCHEDULE**

Location Of Building:	
Causes Of Loss Form (and related endorsements, if any):	
Valuation Condition: Actual Cash Value <input type="checkbox"/> Or Replacement Cost <input type="checkbox"/>	
Coinsurance (if applicable): %	
Deductible On Building Glass (if any): \$	
Deductible On Building Property Other Than Glass \$	
Description Of Building Glass	Limit Of Insurance
	\$
Description Of Other Building Property	Limit Of Insurance
	\$
	\$
	\$
	\$
Information required to complete this Schedule, if not shown above, will be shown in the Declarations.	

A. Under this endorsement, building property means the building glass, building fixtures and permanently installed machinery and equipment described in the Schedule, which are part of the building shown in the Schedule.

B. We will pay for direct physical loss of or damage to the described building property at the building shown in the Schedule caused by or resulting from a Covered Cause of Loss shown in the Schedule, provided that:

1. You are a tenant of the building shown in the Schedule; and

- 2.** You have a contractual responsibility to insure such property, or a contractual responsibility to pay for loss or damage to such property.
- C.** The value of building property covered under this endorsement will be determined in accordance with the terms of the Valuation Condition indicated in the Schedule, or at the amount for which you are liable under contract, whichever is less. If required by law, glass is covered at the cost of replacement with safety glazing material. However, the most we will pay for the coverage provided under this endorsement is the applicable Limit Of Insurance shown in the Schedule.
- D.** The Coinsurance Condition applies to the property described in the Schedule only if a Coinsurance percentage is shown in the Schedule.
- E.** Any coverage provided under this Coverage Form or Policy for Your Business Personal Property or Personal Property Of Others does not apply to the property described in the Schedule.

SAMPLE

POLICY NUMBER:

COMMERCIAL PROPERTY
CP 14 02 09 17**THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.****UNSCHEDULED BUILDING PROPERTY
TENANT'S POLICY**

This endorsement modifies insurance provided under the following:

BUILDING AND PERSONAL PROPERTY COVERAGE FORM
STANDARD PROPERTY POLICY**SCHEDULE**

Location Of Building:	
Causes Of Loss Form (and related endorsements, if any):	
Valuation Condition:	Actual Cash Value <input type="checkbox"/> Or Replacement Cost <input type="checkbox"/>
Coinsurance (if applicable):	%
Deductible On Building Glass (if any):	\$
Limit Of Insurance On Building Glass:	\$
Deductible On Building Property Other Than Glass:	\$
Limit Of Insurance On Building Property Other Than Glass:	\$
Information required to complete this Schedule, if not shown above, will be shown in the Declarations.	

- A.** If a Limit Of Insurance is shown in the Schedule for Building Glass, building property means building glass that is part of the building shown in the Schedule.
- B.** If a Limit Of Insurance is shown in the Schedule for Building Property Other Than Glass, building property means building fixtures and permanently installed machinery and equipment that are part of the building shown in the Schedule.
- C.** We will pay for direct physical loss of or damage to building property at the building shown in the Schedule caused by or resulting from a Covered Cause of Loss shown in the Schedule, provided that:
1. You are a tenant of the building shown in the Schedule; and
 2. You have a contractual responsibility to insure such property, or a contractual responsibility to pay for loss or damage to such property.
- D.** The value of building property covered under this endorsement will be determined in accordance with the terms of the Valuation Condition indicated in the Schedule, or at the amount for which you are liable under contract, whichever is less. If required by law, glass is covered at the cost of replacement with safety glazing material. However, the most we will pay for the coverage provided under this endorsement is the applicable Limit Of Insurance shown in the Schedule.
- E.** The Coinsurance Condition applies to the property covered under this endorsement only if a Coinsurance percentage is shown in the Schedule.
- F.** Any coverage provided under this Coverage Form or Policy for Your Business Personal Property or Personal Property Of Others does not apply to the property covered under this endorsement.

Section 1: Commercial Property Coverage Forms and Endorsements

Both endorsements indicate the insurer will pay for direct physical loss of or damage to building property shown in the endorsement Schedule caused by or resulting from a Covered Cause of Loss shown in the Schedule, provided the Named Insured is a tenant of the building shown in the Schedule and the Named Insured has a contractual responsibility to insure or pay for loss or damage to such property.

The differences in the forms are that in the Scheduled Building Property Tenant's Policy CP 14 01 09 17 endorsement, property must be individually listed with limits of insurance for each item (including Building Glass), while the Unscheduled Building Property Tenant's Policy CP 14 02 09 17 endorsement only requires a singular limit for building glass and a separate singular limit for building property other than glass. Both endorsements also require the location of the building, Valuation Condition, coinsurance percentage (if applicable) and deductible amounts.

Further discussions of these forms are beyond the scope of this course.

Part 4: Summary

The Building And Personal Property Coverage Form lists seven Loss Conditions:

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

It should be noted that when a building has been vacant for 60 or more days, as defined by the policy, there are several Causes of Loss that are excluded from coverage entirely, and loss settlements for all Covered Causes of Loss will be reduced by 15%.

Losses will automatically be valued on an Actual Cash Value basis unless otherwise stipulated in the Valuation Condition, or unless the Replacement Cost Optional Coverage has been triggered on the Declarations.

The BPPCF also has the following Additional Conditions:

1. Coinsurance

The coinsurance requirement and formula for calculating the loss settlement were discussed at length in Part 1 of this section.

2. Mortgageholders

This Additional Condition lists several rights and duties of mortgageholders.

There are four Optional Coverages that can be triggered in the BPPCF Declarations:

3. Agreed Value

The coinsurance requirement is suspended.

4. Inflation Guard

The Limit of Liability is increased on a pro-rata basis to account for inflation.

5. Replacement Cost

Lost or damaged property will be valued on a replacement cost basis, instead of ACV.













6. Extension Of Replacement Cost To Personal Property Of Others

Personal Property Of Others will be valued on a replacement cost basis; it can only be used if the Replacement Cost option has been triggered.

Finally, this section briefly touched on the Legal Liability Coverage Form, which can provide an alternative to the Damage to Premises Rented to You coverage provided in the CGL form.

Endorsements in Part 4

A complete list of the endorsements discussed in this section is included below.

	Loss Payable Provisions CP 12 18 10 12
	Vacancy Permit CP 04 50 07 88
	Vacancy Changes CP 04 60 10 12
	Manufacturer's Selling Price (Finished "Stock" Only) CP 99 30 06 95
	Market Value - Stock CP 99 31 07 88
	Manufacturers Consequential Loss Assumption CP 99 02 07 88
	Functional Personal Property Valuation (Other Than Stock) CP 04 39 10 90
	Functional Building Valuation CP 04 38 09 17
	Increased Cost Of Loss And Related Expenses For Green Upgrades CP 04 02 10 12
	Increase In Rebuilding Expenses Following Disaster (Additional Expense Coverage On Annual Aggregate Basis) CP 04 09 10 12
	Schedule Building Property Tenant's Policy CP 14 01 09 17
	Unscheduled Building Property Tenant's Policy CP 14 02 09 17

Part 4: Self-Quiz

Directions: Select the best answer(s) for the following questions. Some questions may have more than one correct response.

1. Which of the following are Duties In The Event Of Loss Or Damage, according to the BPPCF?
 - ☐ Notify the police of all losses, regardless of whether or not a law may have been broken.
 - ☐ Provide the insurer with a description of how, when, and where the loss or damage occurred.
 - ☐ Store all Your Business Personal Property in a secure storage facility or safe in order to prevent further damage.
 - ☐ Send a signed, sworn proof of loss within 60 days of the request from the insurer.
2. The Valuation Condition automatically provides coverage on an Actual Cash Value basis except as otherwise provided. Which of the following statements accurately describes a situation in which an unendorsed BPPCF will pay on something other than a cash value basis?
 - ☐ All "stock" will be valued at the current market rate.
 - ☐ "Stock" that has been sold but not delivered will be valued at the selling price, less any discounts or expenses that would have been otherwise incurred.
 - ☐ Awnings, floor coverings, appliances, and outdoor equipment or furniture will be valued on a Replacement Cost basis.
 - ☐ Damage to awnings, floor coverings, appliances and outdoor equipment or furniture under \$2,500 will be valued on a Replacement Cost basis.
3. Which endorsement modifies the Loss Payment Condition to add other persons or organizations to be included in the insurer's payment for loss or damage?
 - ☐ Loss Payable Provision
 - ☐ Manufacturers Consequential Loss Assumption
 - ☐ Functional Personal Property Valuation (Other Than Stock)
 - ☐ Functional Building Valuation
4. Which of the following endorsements modifies the Valuation Condition and allows the Named Insured to replace business personal property with the most closely equivalent property available?
 - ☐ Market Value – Stock
 - ☐ Manufacturers Consequential Loss Assumption
 - ☐ Functional Personal Property Valuation (Other Than Stock)
 - ☐ Increased Cost Of Loss And Related Expenses For Green Upgrades

Section 1: Commercial Property Coverage Forms and Endorsements

5. Which of the following statements is true regarding the Agreed Value option in the BPPCF?
- ☐ Agreed Value suspends coinsurance with no additional premium charge.
 - ☐ Agreed Value removes coinsurance for an 5% additional premium charge.
 - ☐ Agreed Value suspends coinsurance for an additional 5% premium charge.
 - ☐ Agreed Value is triggered by an endorsement with a 10% additional premium charge.
6. Which of the following statements regarding Inflation Guard are true? (Select all that apply.)
- ☐ Inflation Guard automatically applies.
 - ☐ A percentage must be shown in the Declarations for this Optional Coverage to apply.
 - ☐ The Limit of Insurance increases quarterly.
 - ☐ The Limit of Insurance increases daily.
7. 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?
- ☐ There is an Optional Coverage for extending Replacement Cost to the Personal Property of Others, only if the Replacement Cost Optional Coverage is shown in the Declarations.
 - ☐ If the Named Insured has Replacement Cost on Your Business Personal Property, the CPP will automatically extend Replacement Cost Coverage to the Personal Property of Others.
 - ☐ Replacement Cost to the Personal Property of Others can be added through endorsement.
 - ☐ Replacement Cost can only apply to Building and Your Business Personal Property.

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Visit the “Resources” Webpage at RiskEducation.org/CPresources

For valuable reinforcement, be sure to visit the “Resources” webpage. This webpage contains a variety of materials that will help you absorb the course material *and* set you up for success on the Final Exam. You’ll find:

Study Guide

Download a copy of the Study Guide. It contains all the Check-In questions, Knowledge Checks, and Self-Quizzes contained in this Learning Guide in a format that makes it easy for you to practice and check your answers.

Flash Cards Study Set

Play an interactive vocabulary game with a study set of digital flashcards to enhance your learning of the insurance and risk management terms used in this course.

Review Game

Use a fun, trivia-style review game to test your knowledge and prepare for the Final Exam.

Video Clips

View video clips about important concepts related to the learning objectives in this section.



Building a Commercial Property Policy



Commercial Property Review

In Addition...

Policies and Forms

For your reference, a copy of the policies and forms discussed in this section are provided on the following pages.

Appendix

The Appendix of this Learning Guide contains a Glossary of terms as well as tips for study techniques and sample test questions that will help you prepare for the Final Exam.

Section 1

BUILDING AND PERSONAL PROPERTY COVERAGE FORM CP 00 10 10 12

COMMERCIAL PROPERTY
CP 00 10 10 12

BUILDING AND PERSONAL PROPERTY COVERAGE FORM

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

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

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

A. Coverage

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

1. Covered Property

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

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

- (1) Completed additions;
- (2) Fixtures, including outdoor fixtures;
- (3) Permanently installed:
 - (a) Machinery; and
 - (b) Equipment;
- (4) Personal property owned by you that is used to maintain or service the building or structure or its premises, including:
 - (a) Fire-extinguishing equipment;
 - (b) Outdoor furniture;
 - (c) Floor coverings; and
 - (d) Appliances used for refrigerating, ventilating, cooking, dishwashing or laundering;
- (5) If not covered by other insurance:
 - (a) Additions under construction, alterations and repairs to the building or structure;
 - (b) Materials, equipment, supplies and temporary structures, on or within 100 feet of the described premises, used for making additions, alterations or repairs to the building or structure.

b. Your Business Personal Property

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

- (1) Furniture and fixtures;
- (2) Machinery and equipment;
- (3) "Stock";
- (4) All other personal property owned by you and used in your business;
- (5) Labor, materials or services furnished or arranged by you on personal property of others;
- (6) Your use interest as tenant in improvements and betterments. Improvements and betterments are fixtures, alterations, installations or additions:
 - (a) Made a part of the building or structure you occupy but do not own; and
 - (b) You acquired or made at your expense but cannot legally remove;
- (7) Leased personal property for which you have a contractual responsibility to insure, unless otherwise provided for under Personal Property Of Others.

c. Personal Property Of Others that is:

- (1) In your care, custody or control; and
- (2) Located in or on the building or structure described in the Declarations or in the open (or in a vehicle) within 100 feet of the building or structure or within 100 feet of the premises described in the Declarations, whichever distance is greater.

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:

\$ 60,100
– 250
\$ 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:	\$ 75,000
		<u>\$ 250,000</u>
	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
		<u>\$ 50,000</u>

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

- The term mortgageholder includes trustee.
- 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.
- The mortgageholder has the right to receive loss payment even if the mortgageholder has started foreclosure or similar action on the building or structure.
- 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:
 - Pays any premium due under this Coverage Part at our request if you have failed to do so;

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

- 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.

- 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:

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

- 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.

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

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

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

- 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

- 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 CP 00 40 10 12

COMMERCIAL PROPERTY
CP 00 40 10 12

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.

Section 2: Commercial Property Causes of Loss and 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. Attention is also focused on how coverage may be modified by the use of endorsements.












Learning Objectives:

- 2.1 *Apply Causes Of Loss – Special Form exclusions to a claims situation and determine whether coverage applies.*
- 2.2 *Describe how endorsements can modify coverage in the Causes Of Loss – Special Form.*
- 2.3 *Apply the Causes Of Loss – Special Form Limitations to a claims situation and determine whether coverage applies.*
- 2.4 *Describe how endorsements can modify coverage Limitations in the Causes Of Loss – Special Form.*
- 2.5 *Apply the Additional Coverages and Additional Coverage Extensions in the Causes Of Loss – Special Form to a claims situation and determine whether coverage applies.*

Overview of the 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 a **named perils** basis while the Special Form provides coverage on an **open perils** basis. After briefly examining what this difference means in terms of coverage, this section of the Commercial Property Course will focus on the Causes Of Loss – Special Form CP 10 30 09 17. Selected endorsements that may be used to modify coverage will also be introduced.




Causes Of Loss – Basic Form CP 10 10 10 12

Causes of Loss – Basic Form Named Perils		
	Fire Lightning	
	Explosion Windstorm or Hail	
	Smoke Aircraft or Vehicles	
	Riot or Civil Commotion Vandalism	
	Sprinkler Leakage Sinkhole Collapse	
Volcanic Action 		

The Basic Form provides coverage on a named perils basis, meaning that only the perils named on the form will be covered. The Basic Form includes eleven named causes of loss:

It also includes the Additional Coverage – Limited Coverage for “Fungus,” Wet Rot, Dry Rot And Bacteria.

Causes Of Loss – Broad Form CP 10 20 10 12

Causes of Loss – Basic Form Named Perils	
	Basic Form Named Perils
	Falling Objects
	Weight of Snow, Ice, or Sleet
	Water Damage
	

The Broad Form includes the same named perils as the Basic Form and adds three more named perils, including Additional Coverage-Collapse.

Causes Of Loss – Special Form CP 10 30 09 17

The Special Form provides coverage on an open perils basis, meaning that a peril must be excluded or limited by the policy language for coverage to be denied. Essentially, coverage under the Special Form is determined by its exclusions and limitations; anything not excluded or limited will be covered. The Special Form exclusions and limitations will be discussed at length later in this section.

Causes Of Loss Forms Comparison

The following comparison chart shows the difference in the perils covered by each of the Causes Of Loss forms. Note that the coverages build on one another. Everything covered under the Basic Form is also covered under the Broad Form, but the Broad Form adds more named perils and the Additional Coverage – Collapse. The Special Form covers everything covered by the Broad Form, as well as additional exposures such as theft.

Section 2: Commercial Property Causes of Loss and Endorsements

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
<p>* Windstorm or Hail, Vandalism, Sprinkler Leakage, and Theft may be individually excluded by endorsement.</p> <p>** There is an exclusion for vehicles owned by the Named Insured or operated in the course of the Named Insured’s business. (This only applies to the Basic and Broad Forms.)</p>			

Check-In



Directions: Read the scenario below and indicate which of the Causes Of Loss forms would provide coverage for the peril described. (Select all that apply).

After a blizzard, the weight of the snow and ice causes significant damage to the roof of a commercial building.

- ☐ Basic Form
- ☐ Broad Form
- ☐ Special Form

Overview of the Causes Of Loss – Special Form

The Exclusions and Limitations of the Causes Of Loss – Special Form are exceptionally important because everything that is not specifically excluded or limited by the policy language is covered. As such, it is essential to understand the exclusions set forth in this form, as well as the Additional Coverages, Additional Coverage Extensions, and endorsements that are available to broaden coverage.

The Causes Of Loss – Special Form graphic presented below will be used throughout this section to reinforce the policy structure, with the Policy Part under discussion being highlighted.

A. Covered Causes of Loss

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.

Section A of the Causes Of Loss – Special Form states that the policy will cover direct physical loss unless the loss is explicitly excluded or limited by the policy. This means that the burden of proof is on the insurer to show that a loss is excluded or limited for coverage to be denied. This differs from the Basic and Broad Forms, in which the burden of proof is on the insured to prove that a loss occurred as a result of a named peril.

Causes Of Loss— Special Form

A. Covered Causes Of Loss

B. Exclusions

1. Concurrent Causation/
Sequential Causation
2. Concurrent Causation
3. Conditional
4. Special
5. Additional

C. Limitations

D. Additional Coverage—Collapse

E. Additional Coverage—"Fungus", Wet Rot, Dry Rot, And Bacteria

F. Additional Coverage Extensions

G. Definitions



Older versions of the Causes Of Loss – Special Form stated that the policy covered “all risks of direct physical loss” or “risks of direct physical loss.” This language was amended following court decisions to state more clearly that the policy covers “direct physical loss,” as the form does not cover *all* losses nor does it cover the *risk* of loss, only the losses themselves.

Special Form—Exclusions

Learning Objectives:

- 2.1 Apply Causes Of Loss – Special Form exclusions to a claims situation and determine whether coverage applies.
- 2.2 Describe how endorsements can modify coverage in the Causes Of Loss – Special Form.

As mentioned previously, because the Special Form provides coverage on an open perils basis, the Exclusions and Limitations determine what is covered by the policy.

Section B, Exclusions, in the Causes Of Loss – Special Form categorizes the policy exclusions into groups, which will be referred to throughout this course 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

Note that the exclusions from Paragraph 1 are known as the Group 1 Exclusions, the exclusions from Paragraph 2 are known as the Group 2 exclusions, etc.

Causes of Loss— Special Form

A. Covered Causes Of Loss

B. Exclusions

1. Concurrent Causation/Sequential Causation
2. Concurrent Causation
3. Conditional
4. Special
5. Additional

C. Limitations

D. Additional Coverage—Collapse

E. Additional Coverage—"Fungus", Wet Rot, Dry Rot, And Bacteria

F. Additional Coverage Extensions

G. Definitions

Paragraph 1: Concurrent Causation/Sequential Causation Exclusions

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.

Paragraph 1 uses anti-concurrent causation verbiage, which modifies the operation of common law proximate causation rules. It is intended to eliminate coverage for a loss caused by or contributed to by any one of

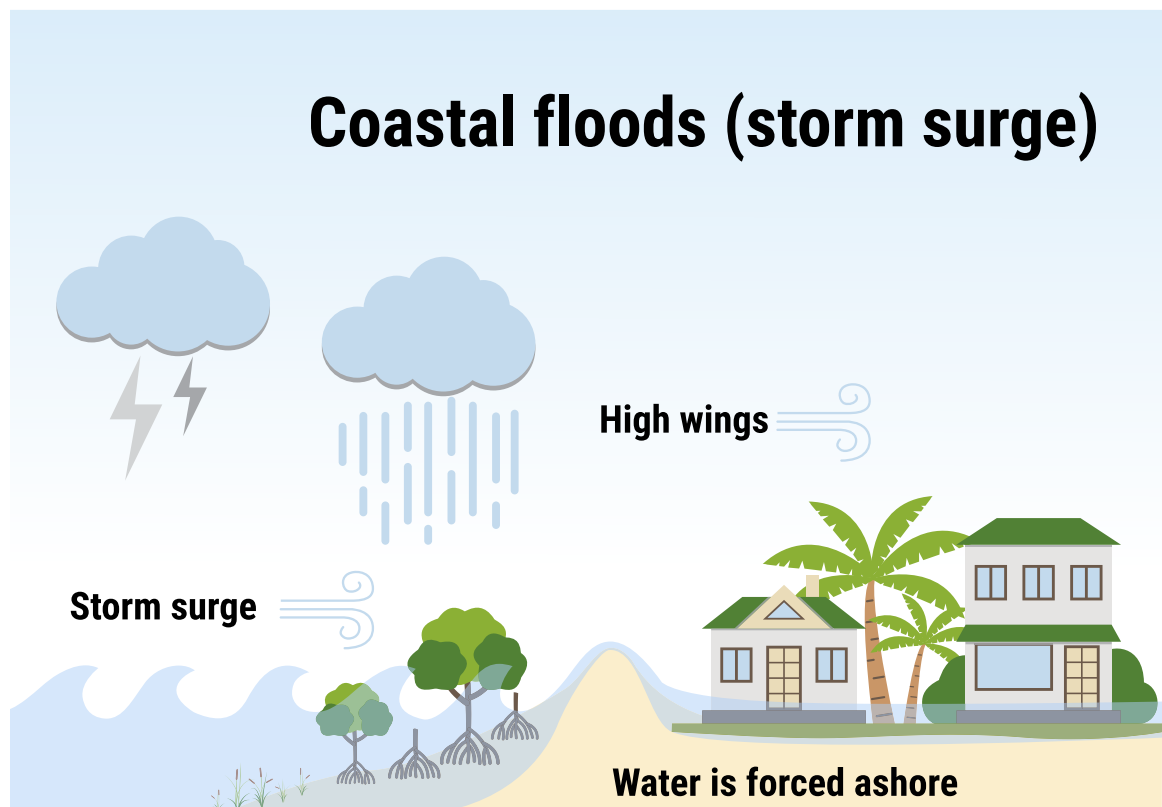
Section 2: Commercial Property Causes of Loss and Endorsements

the excluded Causes of Loss, even if the loss resulted from multiple causes and one of these causes is a Covered Cause of Loss.

Many states have Efficient Proximate Cause rules which state that if the leading cause of loss (the efficient proximate cause) is covered but an excluded cause of loss also contributed to the loss, the entire loss is covered. This can create situations where insurers must pay claims involving losses they never intended to cover. Anti-concurrent causation verbiage addresses these rules by stating that coverage is eliminated for losses caused, directly or indirectly, by any of the Causes of Loss excluded on the Special Form.



Most policies exclude losses resulting from storm surge, which occurs when atmospheric pressure changes and winds from a storm cause sea levels to rise and push the water to the shore. However, insureds began claiming that the efficient proximate cause of loss was the wind that caused the storm surge. Thus, insurance companies began adding language to policies to exclude losses caused directly or indirectly from excluded losses, such as storm surges.



The Group 1 exclusions are as follows:

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



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

a. Ordinance Or Law

The Ordinance Or Law exclusion states that there will be no coverage for loss resulting from the enforcement of any ordinance or law. For example, some communities require that if a building has been damaged to some specified extent (often 30-60%), it must be demolished and reconstructed to ensure that the building will be structurally sound. However, many jurisdictions also give discretionary authority to officials even if the damage is below the specified percentage and there are safety concerns. Because of the Ordinance Or Law exclusion, the policy will pay only for the damaged portion of the building.

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.

The Ordinance Or Law exclusion also eliminates coverage for the extra costs of compliance with local building ordinances. In addition, it applies to federal laws such as the Americans with Disabilities Act. Thus, there would be no coverage for the necessary extra costs incurred by a property owner to comply with updated building codes or with the Americans with Disabilities Act.

Endorsements to "buy back" coverage for certain Ordinance Or Law exposures are available for building owners, as well as a tenant's interest in improvements and betterments. These endorsements will be reviewed prior to returning to the Group 1 exclusions.

Ordinance Or Law Coverage CP 04 05 09 17



The Exposures:

The Ordinance Or Law exclusion prohibits coverage for the following types of losses that 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 that do not permit restoring the building property to the same condition as existed prior to the damage. These types of losses may result from the following:

- Loss of value of an undamaged portion of a building due to an ordinance or law that requires 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



Think About It: You have a client who insists they don't need Ordinance Or Law coverage. After all, their property was built just recently. "That coverage is only for old buildings that need to be brought up to code," they tell you. What might you say to this client?

Hint: Review the three exposures and consider which might apply to any building, regardless of how long ago it was constructed.

The Coverage Overview

This endorsement 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 the *minimum requirements* imposed by ordinances or laws in force *at the time of loss*.

This endorsement includes a Post-Loss Ordinance Or Law Option (presented in the form excerpt below). If selected, coverage applies to codes that are revised *after the loss, but prior to the start of construction or repair*, provided that compliance is required to obtain a building permit or certificate of occupancy. This can be important following major catastrophes, as there are often changes to building codes following these disasters.

This coverage is also included in the endorsement Functional Building Valuation CP 04 38 09 17, which was discussed in the previous section of this course. Insureds with the Functional Building Valuation Endorsement do not need to add the Ordinance Or Law Endorsement. Still, they should be mindful of the Ordinance Or Law exposure when setting their Functional Building Valuation limit.

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.

Coverage Explanation

- Coverage A—Coverage For Loss To The Undamaged Portion of the Building**

This coverage pays 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 is included within the Limit Of Insurance applicable to such building as shown in the Declarations or addressed elsewhere in the policy. Coinsurance of 80% or higher is required per the ISO Commercial Lines Manual (CLM) rule. Coverage can be on a Replacement Cost or ACV basis.

- Coverage B—Demolition Cost Coverage**

This 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**

This coverage pays for the increased cost of construction to repair or reconstruct the damaged part of the building to comply with current building, zoning, or land use laws or ordinances. It also pays costs to reconstruct or remodel undamaged portions of the building to comply with laws and codes. For example, if the local code stated

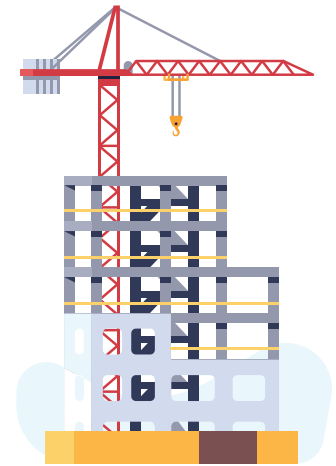
Section 2: Commercial Property Causes of Loss and Endorsements

that all buildings must have sprinklers, this coverage would pay to add sprinklers to both the damaged and undamaged portions of the building.

Coverage applies only if the restored property is intended for similar occupancy as the current property, unless such occupancy is no longer permitted. Usually, the policy will only pay for the Named Insured to rebuild for the same type of business they had prior to the loss. However, if the zoning has changed such that that type of business is no longer permitted, the policy will pay for the insured to rebuild for a different type of business.



A Named Insured owns a warehouse that she leases to other businesses. The warehouse burned down, but updated building codes state that a warehouse is no longer permitted in that part of town. The Named Insured decides to rebuild office space for lease to stay in compliance with zoning laws. Coverage C will pay for the cost of pivoting to a different type of business, subject to the limit on the endorsement.



Payment will not be made under Coverage C if the building is not repaired or replaced. Per the CLM rule, the Replacement Cost option must be applicable on the building to have Coverage C. Coverage will not apply to improvements that should have been made prior to the loss but were not.

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 a 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 a combined single limit.

An additional endorsement is available for Tenant's Interest In Improvements and Betterments as it pertains to Ordinance Or Law coverage.

**Ordinance Or Law Coverage For Tenant's Interest In Improvements And Betterments
(Tenant's Policy) CP 04 26 09 17**



POLICY NUMBER:

COMMERCIAL PROPERTY
CP 04 26 09 17

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

**ORDINANCE OR LAW COVERAGE FOR TENANT'S
INTEREST IN IMPROVEMENTS AND BETTERMENTS
(TENANT'S POLICY)**

This endorsement modifies insurance provided under the following:

BUILDING AND PERSONAL PROPERTY 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"/>	\$	\$	\$ *

Description Of Tenant's Improvements And Betterments

At Building Number/Premises Number :

At Building Number/Premises Number :

At Building Number/Premises Number :

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. Introduction

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 improvements and betterments identified with that Coverage(s) in the Schedule.

Improvements and betterments are fixtures, alterations, installations or additions made a part of the building you occupy but do not own and which you acquired or made at your expense but cannot legally remove.

CP 04 26 09 17

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Page 1 of 5

Ordinance Or Law Coverage is extended to the improvements and betterments identified with the Coverage(s) shown in the Schedule of this endorsement

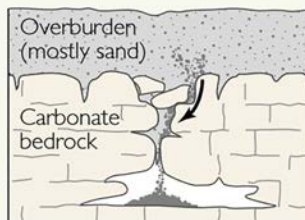
b. Earth Movement

There is no coverage provided for Earth Movement other than **sinkhole collapse**. However, there is an exception for a fire or explosion that ensues as a result of earth movement.

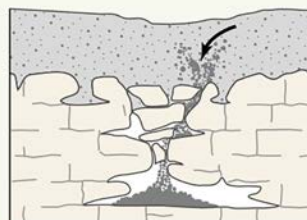
Sinkhole collapse means the sudden sinking or collapse of land into underground empty spaces created by the action of water on limestone or dolomite. Sinkholes are common in regions where rock can naturally be dissolved by groundwater. When this happens, underground spaces and caverns develop, and if there is not enough support for the land above these spaces, the land surface can suddenly collapse. The following graphic explains how a sinkhole can suddenly occur on the land surface due to the continual erosion below.

Granular sediments spall into secondary openings in the underlying carbonate rocks.

A column of overlying sediments settles into the vacated spaces (a process termed "piping").



Dissolution and infilling continue, forming a noticeable depression in the land surface.



The slow downward erosion eventually forms small surface depressions 1 inch to several feet in depth and diameter.



(Image Source: <https://www.usgs.gov/special-topics/water-science-school/science/sinkholes>)

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.

Section 2: Commercial Property Causes of Loss and Endorsements

The Earth Movement exclusion states that there is no coverage for volcanic eruption. However, damages caused by ensuing fires, building glass breakage, or Volcanic Action resulting from the eruption are covered.



Coverage for fires or explosions resulting from earth movement dates back to the 1906 San Francisco earthquake. Measuring 8.25 on the Richter scale, this earthquake spread uncontrollable fires across the city that raged for days and caused even more property damage. Though earthquakes are still generally excluded from most personal and commercial policies, coverage for fires and explosions resulting from earthquakes has been standard in most policies since 1906.²

There are endorsements available to address the earth movement exclusion.

Earthquake And Volcanic Eruption Coverage With Percentage Deductible Endorsement CP 10 40 02 19 OR Earthquake And Volcanic Eruption Coverage With Flat-Dollar Deductible CP 10 28 02 19



These endorsements do not change covered property, but they do modify the Commercial Property Coverage Part, except for the Electronic Data Additional Coverage. (As explained in the previous section of this course, this coverage cannot have additional Covered Causes of Loss added by endorsement.)

These endorsements add Earthquake and Volcanic Eruption as Covered Causes of Loss. If the Schedule indicates that these endorsements cover Earthquake – Sprinkler Leakage Only, then only Sprinkler Leakage resulting from earthquake and volcanic eruption is covered. Leases often require coverage for earthquake sprinkler leakage, so these options would allow insureds to fulfill their lease obligation without having to purchase full earthquake coverage.

These endorsements specifically exclude damage from tsunamis, even if they are caused by an earthquake or volcanic eruption. The application of the deductible(s) will vary, depending on whether the coverage is Specific insurance, Blanket insurance, or Builders Risk insurance. The details of how deductibles are applied are beyond the scope of this course.

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) CP 10 29 02 19



These endorsements provide an alternative to CP 10 40 and CP 10 28. Unlike those endorsements, the full limit of insurance does not apply to loss by earthquake or volcanic eruption. Instead, a sublimit applies.

² "San Francisco earthquake," Lloyd's, 2022. <https://www.lloyds.com/about-lloyds/history/catastrophes-andclaims/san-francisco-earthquake>

Another possible solution is the Difference In Conditions (DIC) Policy, a policy that is typically designed to fill in gaps between policies that do not cover a specific cause of loss. Further discussion of this type of policy is beyond the scope of this course.

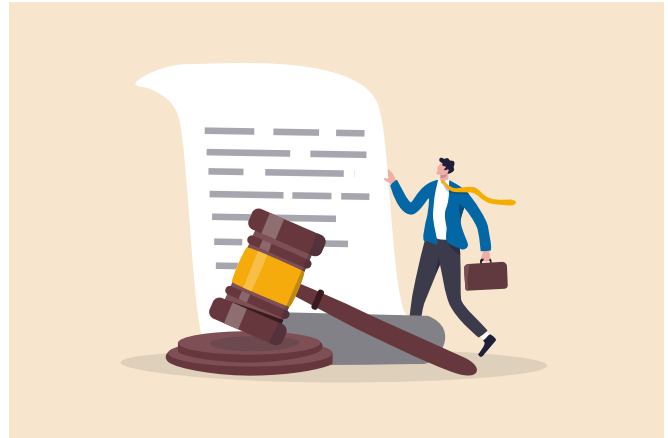
c. Governmental Action

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.

There is no coverage for governmental action unless the destruction is ordered to prevent the spread of fire. For example, if a governmental authority condemns a property that is unsafe structurally and orders it to be demolished, coverage is excluded.



d. Nuclear Hazard



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.

There is no coverage for nuclear hazard except for an ensuing fire. There is an endorsement available to address this exclusion.

Radioactive Contamination CP 10 37 10 00



This endorsement can modify all of the Causes Of Loss forms. It 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.

This endorsement should be considered for organizations such as hospitals, universities, or imaging centers that may work with radioactive substances.

e. Utility Services

There is no coverage for any of the following:

- loss caused by utility service failure that originates away from the described premises, except if it results in a Covered Cause of Loss,
- loss caused by utility service failures that originate 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 the premises), except if it results in a Covered Cause of Loss,
- loss caused by a power surge if the surge results from an event causing a power failure, except if it results in a Covered Cause of Loss.

This exclusion applies to both direct damage and time element losses.

The following two endorsements can address direct damage exposures related to utility service failures. An endorsement for this exposure related to business income and extra expense will be addressed in the next section.

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.

Utility Services – Direct Damage CP 04 17 10 12



POLICY NUMBER:

COMMERCIAL PROPERTY
CP 04 17 10 12

UTILITY SERVICES – DIRECT DAMAGE

This endorsement modifies insurance provided under the following:

BUILDERS' RISK COVERAGE FORM
BUILDING AND PERSONAL PROPERTY COVERAGE FORM
CONDOMINIUM ASSOCIATION COVERAGE FORM
CONDOMINIUM COMMERCIAL UNIT-OWNERS COVERAGE FORM
STANDARD PROPERTY POLICY
TOBACCO SALES WAREHOUSES COVERAGE FORM

SCHEDULE

Premises Number	Building Number	Utility Services Limit Of Insurance	Enter "X" for each applicable property.			
			Water Supply Property	Communication Supply Property (including overhead transmission lines)	Communication Supply Property (not including overhead transmission lines)	Power Supply Property (not including overhead transmission lines)
		\$				
Covered Property:						
Causes Of Loss Form Applicable:						
		\$				
Covered Property:						
Causes Of Loss Form Applicable:						
		\$				
Covered Property:						
Causes Of Loss Form Applicable:						
Information required to complete this Schedule, if not shown above, will be shown in the Declarations.						

Section 2: Commercial Property Causes of Loss and Endorsements

This endorsement modifies the Building and Personal Property Coverage Form and provides coverage for damage that results from the interruption of a utility service to Covered Property described in the Schedule. This endorsement carries its own limit of insurance and deductible that apply at each premises covered, as indicated in the Schedule.

For coverage to apply, the interruption must have resulted from a Covered Cause of Loss to the following types of utility services:

- Water Supply Services, meaning pumping stations and water mains supplying water to the described premises
- Communication Supply Services, meaning property supplying communication services, including telephone, radio, microwave, or television services to the described premises
- Power Supply Services, meaning the following types of property supplying electricity, steam, or gas to the described premises: utility generating plants, switching stations, substations, transformers, and transmission lines

Coverage for each type of utility service must be indicated in the Schedule. Concerning coverage for communication and power supply services, the endorsement indicates whether overhead transmission lines are included.



Spoilage Coverage CP 04 40 12 20



POLICY NUMBER:

COMMERCIAL PROPERTY
CP 04 40 12 20

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

SPOILAGE COVERAGE

This endorsement modifies insurance provided under the following:

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

SCHEDULE

Premises Number	Building Number	Limit Of Insurance
		\$
Description Of Property: Deductible: Refrigeration Maintenance Agreement: Selling Price:		
Causes Of Loss		
Breakdown Or Contamination: Power Outage:		
Premises Number	Building Number	Limit Of Insurance
		\$
Description Of Property: Deductible: Refrigeration Maintenance Agreement: Selling Price:		
Causes Of Loss		
Breakdown Or Contamination: Power Outage:		

CP 04 40 12 20

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J. The following is added to the Definitions:

"Perishable stock" means personal property:

- a. Maintained under controlled conditions for its preservation; and
- b. Susceptible to loss or damage if the controlled conditions change.

This endorsement modifies coverage under the Business And Personal Property Coverage Form, providing coverage for damage to "**perishable stock**," as defined, for "Breakdown or Contamination" and/or "Power Outage" when indicated in the Schedule.

This endorsement carries its own limit of insurance as indicated in 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.

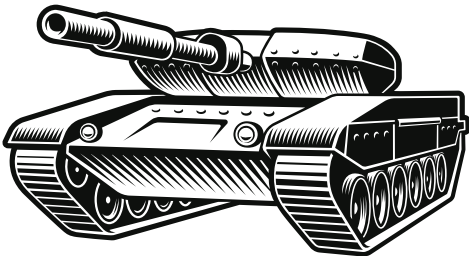
Not all of the exclusions under the Causes Of Loss – Special Form apply to this coverage, but some specific exclusions are added. For example, if the refrigeration unit is unplugged from the power source and spoilage results, there is no insurance protection.

Under this endorsement, "perishable stock" can be valued at its selling price if this is indicated in the Schedule. It is also important to note that the Named Insured may receive a premium credit for entering into a refrigeration maintenance or service agreement.

f. War And Military Action

This exclusion states that there is no coverage for war and military action, such as:

- war, including undeclared and civil war,
- warlike action by a military force,
- insurrection, rebellion, revolution, usurped power, or action taken by a governmental authority in hindering or defending against them.



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

- While this is often referred to as the “flood” exclusion, it includes many water-related perils beyond flood. There is no coverage for loss or damage caused by:
- flood
- surface water
- mudslide
- sewer backup
- hydrostatic pressure or
- waterborne material carried or moved by any of the above.

Following Hurricane Katrina in 2005, the language of this exclusion was clarified to state that it applies regardless of whether these perils were caused by an act of nature or otherwise. For example, if a dam or levee breaks (as with Hurricane Katrina), the ensuing water damage is still excluded.

There is an exception for loss or damage from ensuing fire, explosion, or sprinkler leakage caused by any of these excluded perils.



As a result of Superstorm Sandy in 2012, the Queens neighborhood of Breezy Point was ravaged by a fast-spreading fire that was sparked when water moved by the storm made contact with a building’s electrical system. While this is a personal lines example, it shows how important the exception for loss or damage from ensuing fire can be. In fact, following the fires at Breezy Point, the Consumer Federation of America issued a statement calling on city and state officials to take immediate action to prevent claims from being denied due to anti-concurrent causation clauses.³

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).

³ “Will Breezy Point’s Firefighters Who Lost Their Homes to Fire During Superstorm Sandy Have Their Fire Insurance Claims Denied?” Consumer Federation of America, November 19, 2012, https://consumerfed.org/press_release/will-breezy-points-firefighters-who-lost-their-homes-to-fire-during-superstorm-sandy-have-their-fire-insurance-claims-denied/

Section 2: Commercial Property Causes of Loss and Endorsements

Because the Water exclusion applies to a broad range of water-related perils, coverage can typically only be bought back for individual exposures, such as flood or sewer/drain/sump discharge. A Difference in Conditions (DIC) Policy could be considered as it can fill in coverage gaps in policies that do not cover a specific cause of loss. Other options could also be considered.

- The **National Flood Insurance Program (NFIP)** is an insurance program administered by the U.S. government that provides limited coverage for damage that results from flooding. NFIP coverage is required for all government-sponsored property loans and property loans originating from federally regulated financial institutions.
- There are also private flood insurance options available in some cases, depending on the property type, location to be covered, underwriting appetites, and other factors. The following endorsements are also available.



Flood Coverage Endorsement CP 10 65 10 12



The Flood Coverage Endorsement modifies the Commercial Property Coverage Part, except for the Electronic Data Additional Coverage. (As explained in the previous section of this course, this coverage cannot have additional Covered Causes of Loss added by endorsement.)

This endorsement adds **Flood** as a Covered Cause of Loss. Flood is defined as

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 caused by flooding. Mudslide or mudflow involves a river of liquid and flowing mud on the surface of normally dry land areas when earth is carried by a current of water and deposited along the path of the current.

This endorsement addresses some of the coverage gaps left by the NFIP – General Property Form. For example, the NFIP policy only provides coverage on an ACV basis, while this endorsement has an option for Replacement Cost. It also offers business income and extra expense coverage for flood losses, coverages not available from NFIP.

To purchase this endorsement, the Named 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, and the Named Insured can use the same valuation method as the policy to which the endorsement is added.

Deductibles can be defined either in the flood Schedule or in the Declarations. In the event of a covered ensuing loss (e.g., following a flood, a fire breaks out), the policy will pay no more than the Limit of Insurance applicable to fire. It will not pay the sum of the fire and flood limits for the total of all loss or damage. Regarding ensuing losses, if there is a separate flood deductible, the higher deductible applies.

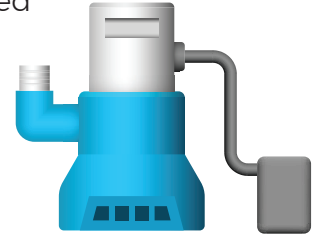
Discharge From Sewer, Drain Or Sump (Not Flood-Related) CP 10 38 10 12



This endorsement modifies coverage under the time element coverage forms as well as the BPPCF. It requires specifying a Discharge Limit for property damage and/or business interruption in the Schedule, which may be on an annual aggregate basis.

This endorsement covers direct physical loss to Covered Property caused by the discharge of water or waterborne material from a sewer, drain, or sump located on the described premises. The loss cannot be caused by flood or the insured's failure to maintain the property. Loss following a power failure is also excluded unless the policy is endorsed to include **Utility Services - Direct Damage**

CP 04 17 10 12. This endorsement includes options for direct damage, as well as business income (time element) coverage.



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

There is 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."** Section G of the policy defines these terms as follows:

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

Presence, growth, proliferation, spread or any activity of "fungus", wet or dry rot or bacteria.

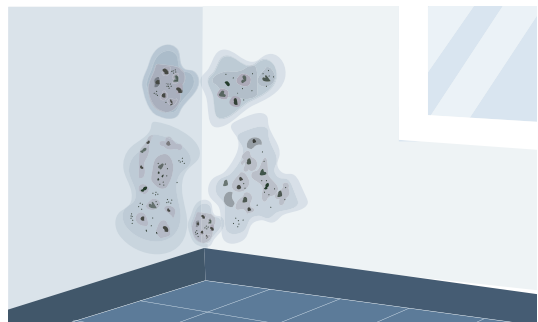
But if "fungus", wet or dry rot or bacteria result in a "specified cause of loss", we will pay for the loss or damage caused by that "specified cause of loss".

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.

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.



This exclusion does not apply:

1. if loss or damage results from fire or lightning, or
2. for causes other than fire or lightning, to the extent that coverage is provided by the Additional Coverage—Limited Coverage for "Fungus," Wet Rot, Dry Rot, And Bacteria. (This Additional Coverage will be addressed later in this Section.)

**Note:**

All of the exclusions in Section B.1.a through B.1.h (the Concurrent Causation/ Sequential Causation exclusions) apply whether or not the loss event results in widespread damage or affects a substantial area.

Check-In



Directions: Indicate whether each of the following statements are true or false.

1. Ordinance Or Law Coverage CP 04 05 09 17 only allows the Named Insured to buy back coverage for the increased cost of construction to bring a building up to code.

True

False

2. An earthquake causes power lines to collapse, sparking a fire. There would be no coverage under the Causes Of Loss – Special Form for damage resulting from that fire.

True

False

3. The Utility Services exclusion applies to both direct damage and time element losses.

True

False

4. Because the Water exclusion applies to a broad range of water-related perils, coverage can typically only be bought back for certain individual exposures, such as flood or sewer/drain/sump discharge.

True

False

5. Coverage for “fungus,” wet rot, dry rot, or bacteria that results from the water used to put out a fire is excluded under the Causes Of Loss – Special Form.

True

False

▶▶ Knowledge Check



Directions: Read the scenario and respond to the prompt.

Your client is considering adding Ordinance Or Law Coverage CP 04 05 to their Causes Of Loss – Special Form but they are confused regarding how the coverages apply. Explain what is paid for by each Coverage (A, B, and C).

Paragraph 2: Concurrent Causation Exclusions

The primary difference between Group 1 and Group 2 exclusions is causation, a topic that will be reinforced following the listing of the Group 2 exclusions:

- a. Artificially generated electrical, magnetic, or electromagnetic energy
- b. Delay, loss of use, or loss of market
- c. Smoke, vapor, or gas from agricultural smudging or industrial operations
- d. Typical open peril exclusions
- e. Explosion of steam apparatus, etc.
- f. Seepage or leakage of water
- g. Freezing of plumbing
- h. Dishonest or criminal acts by specific individuals
- i. Voluntary parting
- j. Rain, snow, ice, or sleet—personal property in the open
- k. Collapse
- l. Damage caused by pollutants
- m. Neglect to save and preserve property

To better understand how the Group 2 exclusions differ from the Group 1 exclusions, consider the following example regarding the Group 2 exclusion for explosion of steam apparatus.



An electrical fire occurred one evening at an insured's hotel, and the protective devices were unable to control the fire before its heat melted through a gas line supplying a large boiler in the basement of the hotel. Once the flame ignited the gas supply, the gases inside the furnace ignited, causing an explosion. The loss is covered since the cause was a fire that originated outside of the boiler.

If this were a Group 1 exclusion, the loss would not be covered because the anti-concurrent causation verbiage that applies to the Group 1 exclusions eliminates coverage for a loss contributed to by an excluded Cause of Loss, even if the loss resulted from multiple causes and one of those causes is a Covered Cause of Loss. This anti-concurrent causation language does not apply to the Group 2 exclusions. Group 2 only excludes loss or damage from the specific excluded Cause of Loss. Thus in the above example, the loss would be covered since it was caused by a fire that started outside of the boiler.

a. Certain Types of Energy

There is no coverage for loss, 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.

Note that this exclusion only applies to artificially generated currents; it does not apply to lightning, which is a Covered Cause of Loss.

There are a few potential solutions to address this exclusion.

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.**

Equipment Breakdown Cause Of Loss CP 10 46 10 12



This endorsement modifies the Causes Of Loss – Special Form by adding “Breakdown” of “Covered Equipment” to the list of Covered Causes of Loss. This allows 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



This form provides similar protection as the Equipment Breakdown Cause Of Loss endorsement but under a separate coverage part.

Electronic Data Processing (EDP) Policy

EDP policies are inland marine policies that provide property coverage for losses to computer hardware and electronic data. Further discussion of this type of policy is outside the scope of this course.

b. Delay, Loss of Use, or Loss of Market

There is no coverage for damage caused by or resulting from delay, loss of use, or loss of market because this is a consequential, or indirect, loss. This exclusion reinforces the direct damage requirement presented in Section A of the policy.

c. Smoke, Vapor, Gas

This exclusion, which applies to only certain operations, states that there is no coverage for loss or damage due to smoke, vapor, or gas from **agricultural smudging**, the process by which certain fruit crops are protected from frost by burning crude oil to create a smog that prevents cold air from freezing the plants.

There is also no coverage for smoke, vapor, or gas from industrial operations. For example, damage to a building next to a smokestack would not be covered.

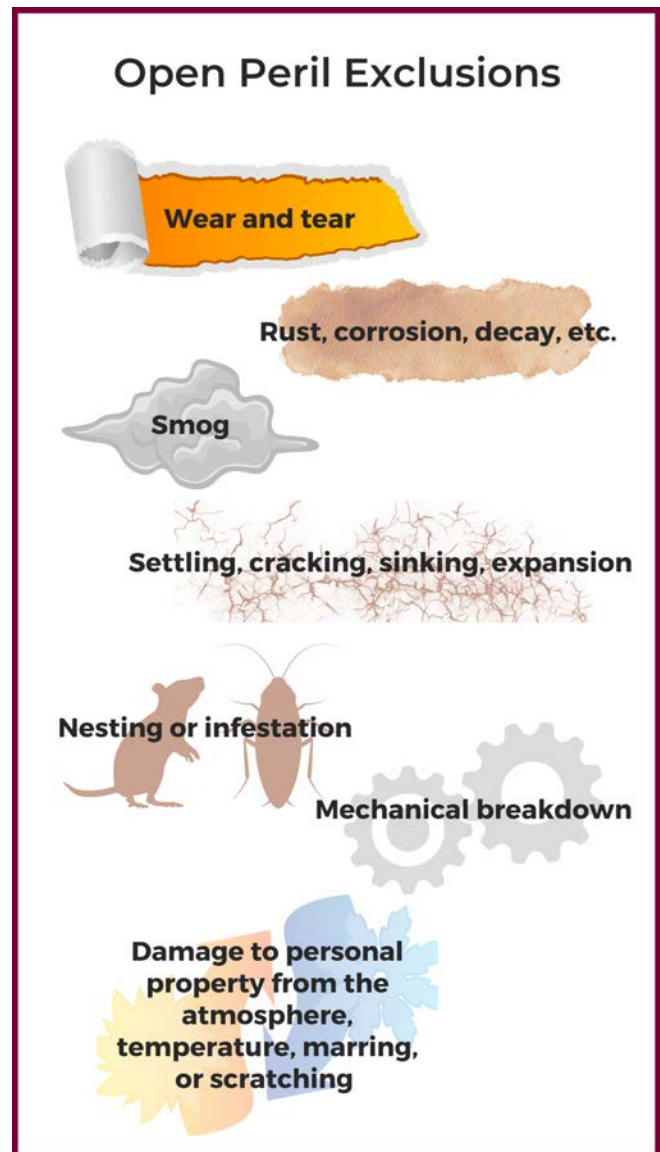


This exclusion exists because loss or damage from *predictable losses* is not usually insurable.

d. Typical Open Peril Exclusions

- 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.



There is no coverage for loss or damage due to wear and tear or anything that usually causes loss or damage over time. The exception is if it results in a "specified cause of loss" or building glass breakage, the resultant loss or damage is covered.

Section G of the policy defines "**specified causes of loss**" as follows:

Note that with respect to the specified causes of loss, water damage means:

- Water or steam from an on-premises system or appliance
- Water or waterborne material from the breaking apart or cracking of an off-premises water or sewer pipe, if caused by wear and tear.

- 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.

Outside of these items, the water exclusion applies.

The **Equipment Breakdown Cause of Loss CP 10 46 10 12** endorsement as well as Equipment Breakdown Protection Coverage Form EB 00 20 01 13, described in exclusion 2.a. above, can help to address the mechanical breakdown exposure.

e. Explosion of Steam Apparatus

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.

There is no coverage for loss or damage due to the explosion of steam boilers, steam pipes, steam engines, or steam turbines owned, leased, or operated by the Named Insured.

However, there is coverage for an ensuing fire. Loss or damage from the explosion of gases or fuel within the flues, passages, or furnace of any fired vessel is also covered.

The **Equipment Breakdown Cause Of Loss CP 10 46 10 12** endorsement as well as Equipment Breakdown Protection Coverage Form EB 00 20 01 13 can address this exposure.

f. Seepage or Leakage of Water

There is no coverage for any of the following:

- 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, such as:
 - mold losses resulting from faulty construction materials and methods
 - losses resulting from the accumulation of moisture unless the accumulation results from a Covered Cause of Loss such as fire.

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. Freezing of Plumbing

There is no coverage for losses caused by freezing of plumbing or HVAC equipment, with the following exceptions:

1. when the Named Insured has attempted to maintain heat in the building; or

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.**

2. when the Named Insured has drained the equipment and shut off the water supply if the heat is not maintained.

h. Dishonest or Criminal Acts by Specific Individuals

This exclusion is often given the misnomer of employee dishonesty, but it applies to much more than that, for example, acts of temporary employees and leased workers, company executives, and authorized representatives. This exclusion applies regardless of collusion (including non-employees who are colluding with an employee) and regardless of whether an act occurs during work hours (“outside the scope of employment”).



A store employee colludes with a friend who does not work in the store. She gives the friend the security codes to the back door and the safe, allowing the non-employee friend to break into the store after hours and steal money from the safe. This act of collusion and theft would not be covered, even though it involved a non-employee and occurred outside of normal business hours.

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.**



This exclusion also applies to theft by anyone to whom the Named Insured entrusts the property. For example, a Named Insured takes property to a bailee for repair and the bailee is guilty of conversion. However, it does not apply to vandalism losses committed by employees (including temporary employees and leased workers) or authorized representatives. Essentially, destruction of property by those to whom property has been entrusted is covered, but *theft is not*.

i. Voluntary Parting

There is no coverage for theft if the Named Insured or someone to whom the Named Insured has entrusted the property (e.g., an employee) has voluntarily parted with the property as a result of some sort of trickery.

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.



A shop owner sells items to an individual who pays with a bad check. This would not be covered as theft, because the shop owner voluntarily parted with the property.

j. Rain, Snow, Ice or Sleet—Personal Property in the Open

j. Rain, snow, ice or sleet to personal property in the open.

There is no coverage for rain, snow, ice or sleet damage to personal property left in the open because weather exposures are a predictable type of loss.



k. Collapse

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.



There is 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 a “specified cause of loss,” breakage of building glass, weight of rain that collects on a roof, or weight of people or personal property. The Additional Coverage – Collapse will be addressed later in this section. If collapse results in a Covered Cause of Loss, that loss or damage is covered.

l. Damage Caused by Pollutants

There is no coverage for loss or damage by pollutants unless the release of the pollutant is caused by one of the named perils included in the definition of “specified causes of loss.”

Coverage also applies if the release of pollutants results in one of the named perils included in the definition of “specified causes of loss.” (See exclusion d. above.) In that case, loss or damage from the ensuing loss is covered.

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.

The exclusion does not apply to damage to glass caused by chemicals applied to the glass.

m. Neglect to Save and Preserve Property

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.

There is no coverage for additional loss that is the result of an insured's failure to take reasonable means to save and preserve the property at and after the time of loss.

Check-In



Directions: Which of the following are NOT COVERED because they are part of the Group 2 exclusions? (Select all that apply.)

- ☐ Damage caused by agricultural smudging or industrial operations
- ☐ A fire that ensues as a result of a steam apparatus explosion
- ☐ A pipe that burst due to freezing after the Named Insured drained it and shut off the water supply
- ☐ Stolen property that had been entrusted to an individual by the Named Insured
- ☐ Damage to personal property that was left out in the rain
- ☐ Fire damage to company property resulting from a disgruntled employee committing an act of arson

Paragraph 3: Conditional Exclusions

The Group 3 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. It is important to note that if an excluded cause of loss results in a Covered Cause of Loss, the policy pays for the resultant damage.

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.

As a reminder, the Group 1 exclusions follow anti-concurrent causation verbiage, which eliminates coverage for a loss caused by or contributed to by any one of the excluded Causes of Loss, even if the loss resulted from multiple causes and one of these causes is a Covered Cause of Loss. The policy language for the Group 3 exclusions is different because it states that if one of the three excluded Causes of Loss presented in this section results in a Covered Cause of Loss, the policy pays for the resultant damage in specific circumstances.

a. Weather Conditions

This exclusion only applies to weather conditions that contribute in any way to the excluded Causes of Loss:

- Ordinance Or Law
- Earth Movement
- Governmental Action
- Nuclear Hazard
- Utility Services
- War And Military Action
- Water
- “Fungus”, Wet Rot, Dry Rot and Bacteria

For example, losses resulting from weather conditions that happen concurrently with flood, mudslide, and/or earth movement would not be covered. An individual could not claim coverage for damage from a mudslide because the mudslide was caused by a rain storm.

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

b. Acts or decisions, including the failure to act or decide, of any person, group, organization or governmental body.

There is no coverage for acts or decisions of any person, group, organization, or governmental body. For example, if a flood is caused by the intentional release of water from a dam, the water exclusion still applies.

c. Faulty, Inadequate or Defective

There is no coverage for losses resulting from faulty, inadequate, or defective:

- Planning, zoning, development, etc.
- Design, workmanship, construction, etc.
- Construction materials
- Maintenance of any property *on or off the premises*

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;

For example, if a flood is caused by the inadequate design of the sewage system, the water exclusion still applies.

Paragraph 4: Special Exclusions

4. Special Exclusions

The following provisions apply only to the specified Coverage Forms:

- 4.a. Business Income (And Extra Expense) Coverage Form, Business Income (Without Extra Expense) Coverage Form, or Extra Expense Coverage Form
- 4.b. Leasehold Interest Coverage Form.

Paragraph 4.c. applies to the Legal Liability Coverage Form that was discussed in the previous section. First, the form voids exclusions that would otherwise apply, for example, Ordinance Or Law. Two Exclusions for Contractual Liability and Nuclear Hazard are then added.

a) Contractual Liability

There is no coverage for liability assumed under contract except for building damage resulting from an actual or attempted burglary or robbery if the building is covered property and the contract was executed prior to the loss.



b) Nuclear Hazard

The nuclear hazard exclusion that was voided in paragraph c.(1)(c) is replaced by the language in the second additional exclusion to make it clear that there is no coverage and no defense for the nuclear hazard.

Paragraphs 4.a. and 4.b. will be discussed in detail in the Section 3: Time Element Coverages and Endorsements.

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.

Paragraph 5: Additional Exclusion

There is no coverage for loss or damage when errors or omissions in any stage of the production process (planning, installation, repair, etc.) result in goods that have little or no value or that must be destroyed. The policy will, however, pay for loss or damage caused by a Covered Cause of Loss that results from the error or omission.

For example, if a product manufactured by the Named Insured was poorly designed, causing the product to overheat and catch on fire, the policy will not pay for the loss or damage to this product. However, a resultant fire from this product that burns the Named Insured's building would be covered, as fire is a Covered Cause of Loss.

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.

Available Exclusion Endorsements

The following endorsements can modify coverage.

Exclusion Of Loss Due To By-Products Of Production Or Processing Operations (Rental Properties) CP 10 34 10 12



This exclusion endorsement modifies coverage under the Building And Personal Property Coverage Form as well as the time element forms. It eliminates coverage for damage caused by smoke, vapor, or any other substance released resulting from a tenant's operations. The endorsement 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.

Protective Safeguards CP 04 11 09 17

- 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:

Causes Of Loss – Basic Form

Causes Of Loss – Broad Form

Causes Of Loss – Special Form

Mortgageholders Errors And Omissions Coverage Form

Standard Property Policy

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.

Automatic Sprinkler System means:

- a. Any automatic fire protective or extinguishing system, including connected:
 - (1) Sprinklers and discharge nozzles;
 - (2) Ducts, pipes, valves and fittings;
 - (3) Tanks, their component parts and supports; and
 - (4) Pumps and private fire protection mains.
- b. When supplied from an automatic fire protective system:
 - (1) Non-automatic fire protective systems; and
 - (2) Hydrants, standpipes and outlets.

"P-2" Automatic Fire Alarm, protecting the entire building, that is:

- a. Connected to a central station; or
- b. Reporting to a public or private fire alarm station.

"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:

- a. Hood;
- b. Grease removal device;
- c. Duct system; and
- d. Wet chemical fire extinguishing equipment.

"P-9", the protective system described in the Schedule.

This endorsement modifies the Business And Personal Property Coverage Form by creating conditions that require the Named Insured to maintain and have actively engaged protective safeguards and services, as well as notifying the carrier of any suspension or impairment. It modifies the Causes Of Loss forms by adding an exclusion for failure to comply with these conditions. It is important to understand that this endorsement only applies to loss by fire. Also of note, notification to the insurance company is not required when 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 if full protection can be restored within 48 hours.

Symbols in the Schedule are used to identify the applicable protective safeguards.

Burglary And Robbery Protective Safeguards CP 12 11 09 17



This endorsement similarly modifies the Commercial Property Coverage Part by creating conditions that require the Named Insured to maintain and

have actively engaged protective safeguards and/or services against theft, which are identified by a symbol in the Schedule, and to notify the carrier of any suspension or impairment. It suspends theft coverage if the Named Insured fails to comply with these conditions.



Other Causes of Loss Exclusion Endorsements



The following is a list of other exclusion endorsements that are available. Further discussion of these endorsements is beyond the scope of this course.

- **Theft Exclusion CP 10 33 10 12:** excludes theft from the Causes Of Loss – Special Form
- **Windstorm Or Hail Exclusion CP 10 54 06 07:** excludes direct and indirect damage
- **Vandalism Exclusion CP 10 55 06 07:** adds Vandalism to the exclusion section and removes it as a Covered Cause of Loss
- **Sprinkler Leakage Exclusion CP 10 56 06 07:** removes coverage for damage caused by sprinkler leakage
- **Cyber Incident Exclusion CP 10 75 12 20:** excludes loss or damage caused directly or indirectly from a cyber incident, with exceptions for fire or explosion, coverage provided by the Additional Coverage – Electronic Data, or coverage provided by the Additional Coverage – Interruption of Computer Operations. Vandalism does not include a cyber incident as described in Paragraph A of this endorsement when this exclusion is applied.
- **Cyber Incident Exclusion With Ensuing Cause(s) Of Loss Exceptions CP 10 76 12 20:** similar to the Cyber Incident Exclusion CP 10 75 12 20, with more exceptions for coverage, including Other Causes of Loss specified in this endorsement as well as coverage and limits of insurance shown in the Schedule of this endorsement

▶▶ Knowledge Check



Directions: Answer the following question.

A client's pipes froze and burst, causing significant damage to the building and personal property. What must the client have done for this damage to be covered under the Causes Of Loss – Special Form?

Special Form—Limitations

Learning Objectives:

- 2.3 Apply the Causes Of Loss – Special Form Limitations to a claims situation and determine whether coverage applies.
- 2.4 Describe how endorsements can modify coverage Limitations in the Causes Of Loss – Special Form.

Section C of the Special Form outlines the limitations that apply to all policy forms and endorsements unless otherwise stated.

1. Specific Property

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.

There is no coverage for damage to property as described and limited by the form, and there is no coverage for any other consequential loss except for specific coverage give-backs.

a. Steam Apparatuses

- 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.

There is no coverage for damage to steam boilers, steam pipes, steam engines, or steam turbines caused by a condition inside the equipment. Note that while the steam apparatus exclusion applies to damage caused to property by steam apparatus explosion, *this limitation addresses damage to the steam apparatus itself.*

However, there is 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.

Causes Of Loss— Special Form

A. Covered Causes Of Loss

B. Exclusions

1. Concurrent Causation/
Sequential Causation
2. Concurrent Causation
3. Conditional
4. Special
5. Additional

C. Limitations

- D. Additional Coverage—Collapse
- E. Additional Coverage—"Fungus",
Wet Rot, Dry Rot, And Bacteria
- F. Additional Coverage Extensions
- G. Definitions

b. Water Heating Equipment

There is no coverage for damage to water heaters caused by or resulting from a condition inside the equipment, other than an explosion.

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.



Note:

The Equipment Breakdown Cause of Loss CP 10 46 10 12 endorsement as well as Equipment Breakdown Protection Coverage EB 00 20 01 13 can address the exposures associated with Limitations 1.a. and 1.b.

c. Interior Damage from Rain, Snow, Sleet, Ice, Sand, or Dust

- 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.**



There is no coverage for loss or damage to the interior of any building or personal property in the building or structure caused by rain, snow, sleet, ice, sand, or dust, even if driven by wind (unless caused by an **ice dam** or if the walls or roof of the building have been damaged by a Covered Cause of Loss). An ice dam is a ridge of ice that forms at the edge of a roof and prevents melting snow (water) from draining off the roof.

d. Theft of Building Materials and Supplies

This limitation does not apply:

- if the building materials are held for sale by the Named Insured, unless they are insured by the Builder's Risk Coverage Form
- to Business Income or Extra Expense coverage.

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.**

Theft Of Building Materials And Supplies (Other Than Builders Risk) CP 10 44 10 12



This endorsement pays for loss that results from the theft of building materials located on the described premises which are intended to become a permanent part of the building. The Named Insured can use the same deductible as the building or a separate deductible can be indicated in the Schedule. This endorsement also includes a separate limit of insurance, as indicated in the Schedule.

This endorsement does not provide coverage for any of the following:

- Dishonest or Criminal Acts as excluded in the Causes Of Loss – Special Form
- Voluntary Parting
- Property that is missing with no physical evidence to show what happened to it.

e. Missing Property Without Physical Evidence

There is no coverage for property that is missing if there is no physical evidence to show what happened to it.

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 Transferred on the Basis of Unauthorized Instructions

f. Property that has been transferred to a person or to a place outside the described premises on the basis of unauthorized instructions.

There is no coverage for property that has been transferred away from the described premises based on unauthorized instructions.

g. Vegetated Roof



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.**

No coverage is provided for predictable-type losses to items that are part of a vegetated roof, including issues such as humidity, temperature changes, disease, frost, or precipitation.

2. Specific Property

Paragraph 2. of Section C states that loss or damage to certain types of property is not covered unless it is caused by the “specified causes of loss” (as defined) or building glass breakage. These types of property are:

f. Animals, only if they are killed or if their destruction is made necessary

Recall that animals are only covered by the Commercial Property Policy if they are the Named Insured’s stock and are inside the building or they are boarded.

g. Fragile articles (if broken)

There are exceptions for glass and containers of property held for sale.

h. Builder’s machinery, tools, and equipment, more than 100 feet from the premises

There are exceptions 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
- builders’ machinery, tools, and equipment with respect to Business Income Coverage or Extra Expense Coverage

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. Theft Limitation

Special limits apply to specific property for the peril of theft, as follows:

- \$2,500 for furs, fur garments, and garments trimmed with fur
- \$2,500 for jewelry valued at over \$100 per item (including watches, watch parts, jewels, stones, and precious metals)
- \$2,500 for patterns, dies, molds, and forms
- \$250 for stamps, tickets (including lottery tickets held for sale), and letters of credit.

These limits are part of (not in addition to) the Limit of Insurance.

This limitation does not apply to Business Income 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.

4. Specific Defects

There is 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. This limitation does not apply to Business Income Coverage or Extra Expense Coverage.

To address excessive roof surfacing claims due to an increase in storm activity, a limiting form was created in lieu of rate increases or excluding coverage.



Limitations On Coverage For Roof Surfacing CP 10 36 10 12



This endorsement modifies coverage under the Business And Personal Property Coverage Form. It applies in one or both of the following ways, as indicated in the Schedule:

- It 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 repair would only be cosmetic; this means that if the roof continues to function as it did prior to the damage, then there is no payment.

▶▶ Knowledge Check



Directions: For each of the following scenarios, indicate whether coverage would apply (and if so, to what extent) under the Causes Of Loss – Special Form. Explain your answer, referencing any relevant Limitations.

1. A heavy rainstorm occurs overnight. The Named Insured discovers significant water damage to the interior of the building because a window was left open.

2. The outerwear department of a high-end store is robbed, and the thief makes off with over \$15,000 worth of fur coats.

3. An antique store employee trips and falls, knocking over a glass display case full of porcelain figurines. Both the display case and the figurines are broken as a result.

Special Form—Additional Coverages and Extensions

Learning Objectives:

- 2.5 Apply the Additional Coverages and Additional Coverage Extensions in the Causes Of Loss – Special Form to a claims situation and determine whether coverage applies.

Causes Of Loss— Special Form

A. Covered Causes Of Loss

B. Exclusions

1. Concurrent Causation/
Sequential Causation
2. Concurrent Causation
3. Conditional
4. Special
5. Additional

C. Limitations

- D. Additional Coverage—Collapse
- E. Additional Coverage—"Fungus",
Wet Rot, Dry Rot, And Bacteria
- F. Additional Coverage Extensions
- G. Definitions

The Causes Of Loss – Special Form includes Additional Coverages for Collapse and "Fungus", Wet Rot, Dry Rot, And Bacteria. These Additional Coverages give back some coverage that was taken away by exclusions. The form also includes three Additional Coverage Extensions that provide limited coverage in specific situations.

Additional Coverage – Collapse

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.

The Group 2 Collapse Exclusion states that there is no coverage for the peril of collapse (abrupt or otherwise). Coverage is then given back to the following extent by the Additional Coverage – Collapse, if the damage or loss is caused by:

- "specified causes of loss,"
- breakage of building glass,
- weight of rain that collects on a roof, or
- weight of people or personal property.

Additionally, if Collapse leads to a Covered Cause of Loss, loss or damage from the ensuing loss is covered.

D.1.

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.

With respect to the Additional Coverage, **collapse** is defined as "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.2.

The Additional Coverage – Collapse adds coverage for a building or part of a building as well as personal property within a building that is damaged as a result of abrupt collapse. The collapse must be a result of one or more of the specified causes of loss:

- a. Building decay that is hidden from view, unless known prior to collapse. *The decay is not hidden if the insured is aware of it.*
- b. Insect or vermin damage that is hidden from view, unless known prior to collapse
- c. Use of defective material or methods if the abrupt collapse occurs during the course of the construction, remodeling, or renovation
- d. Use of defective material or methods 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.

- 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.

D.3.

Certain conditions of the building are not covered by this additional coverage. This includes:

- all or part of a building that is in danger of falling down;
- a part of a building that is standing, even if separated from another part of the building; or
- all or part of a building that is standing, even if it shows evidence of a loss of structural integrity.

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.

Essentially, the loss of structural integrity is not covered.

D.4.

Certain types of property are provided coverage only if both of the following conditions are met:

1. The loss or damage is caused by the abrupt collapse of a covered building.
2. The damaged property is Covered Property.

These property types are:

- Radio and TV antennas*
- Awnings, gutters, and downspouts
- Yard fixtures
- Outdoor swimming pools
- Fences*
- Piers, wharves, and docks*
- Beach or diving platforms
- Retaining walls*
- Paved surfaces*

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.

*Endorsements are needed to make these property types Covered Property.

D.5.

Coverage is provided for the abrupt collapse of personal property for the same causes of loss as the building as long as the following conditions are met:

- personal property is inside the building, and
- it is not one of the types of property previously identified.

Coverage does not apply to personal property if marring or scratching is the only damage caused by the collapse.

- 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.

D.6.

- 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.

Coverage does not apply to personal property that has not abruptly fallen or caved in, even if the property shows evidence of loss of structural integrity.

D.7. and D.8.

The Additional Coverage, Collapse, will not increase the Limits of Insurance provided in the Coverage part.

Covered Cause of Loss includes the Additional Coverage, Collapse, as described and limited in D.1 through D.7.

- 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.**

Additional Coverage – Limited Coverage for “Fungus”, Wet Rot, Dry Rot And Bacteria

E.1.

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.

This Additional Coverage 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 the Flood Coverage Endorsement applies) and all reasonable means were used to save and preserve the property from further damage.

E.2.

Coverage includes the following:

- Direct physical loss or damage to Covered Property, including the removal of the “fungus”, wet rot, dry rot, or bacteria.
- The cost to tear out and replace any part of the building as needed to gain access.
- The cost of testing performed after removal to ensure that the remediation was successful, if there is a reason to believe that “fungus”, wet rot, dry rot, or bacteria may be present.

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.



E.3.

There is a \$15,000 aggregate limit. If the fungus recurs in a later policy period, no additional dollars are provided.

E.4.

This Additional Coverage does not increase the applicable Limit of Insurance.

E.5.

This Additional Coverage does not affect paragraph F.2. (Water Damage, Other Liquids, Powder or Molten Material Damage) or the Additional Coverage – Collapse.

E.6.

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.

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.

There is a 30-day maximum for Business Income And/Or Extra Expense Coverage if the suspension is due to the "fungus," wet rot, dry rot, or bacteria. Coverage is extended for an additional 30 days maximum if the suspension is due to another cause of loss and remediation prolongs the period of restoration. (The period of restoration will be described in greater detail in the next section.)

There is an endorsement available to modify the Additional Coverage – "Fungus", Wet Rot, Dry Rot And Bacteria.

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.

This endorsement is used to increase the \$15,000 aggregate Limit or increase the time allotted for Business Income and/or Extra Expense coverage.



Additional Coverage Extensions

F.1. Property In Transit

This coverage extension provides named perils coverage for the Named Insured's covered personal property (other than property in the care, custody, or control of salespersons) *while in transit on vehicles owned, leased, or operated by the Named Insured*. This coverage is subject to a *maximum limit of \$5,000*. This coverage is additional insurance, and coinsurance does not apply.

Loss or damage must be due to one of the following:

- Fire, lightning, explosion, windstorm or hail, riot or civil commotion, or vandalism
- Vehicle collision, upset, or overturn
- Theft of an entire package from a securely locked vehicle, with signs of forced entry

F.2. Water Damage, Other Liquids, Powder Or Molten Material Damage

While the coverage will not pay to repair the defective item from covered water or other liquid, powder, or molten material damage loss, it will pay the cost of tearing out and replacing any part of the building or structure to repair the item.

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.

F.3. Glass

- a. The coverage will pay for temporary board-up if the repair or replacement of glass is *delayed*.
- b. If there are obstructions when repairing building glass damage (other than window displays), coverage applies to remove and replace these obstructions.

This Coverage Extension is part of 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.

Definitions

Section G lists several definitions. Many of these definitions have been discussed along with the relevant Exclusions, Limitations, or Additional Coverages.

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.

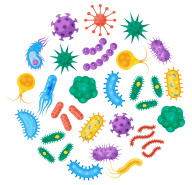
To the extent that accidental discharge or leakage of water falls within the criteria set forth in c.(1) or c.(2) of this definition of "specified causes of loss," such water is not subject to the provisions of the Water Exclusion which preclude coverage for surface water or water under the surface of the ground.

A mandatory Amendatory Endorsement applies to all coverage under all forms and endorsements comprising the Commercial Property Policy.

Exclusion Of Loss Due To Virus Or Bacteria CP 01 40 07 06



This endorsement states that there is no coverage for loss or damage caused by or resulting from any virus, bacterium, or other microorganism that includes or is capable of including physical distress, illness, or disease.



Knowledge Check



Directions: Determine whether the Additional Coverage – Collapse would apply in the following scenario. Explain your answer.

A roof was constructed of defective material. During a heavy rainstorm, the roof collapsed abruptly due to the weight of the rain that had collected on it.

Section 2: Summary

There are three Causes Of Loss forms available in the Commercial Property Policy. The Basic and Broad Forms provide coverage on a named perils basis, while the Special Form provides coverage on an open perils basis. This means that in order for a claim to be denied under the Special Form, the Cause of Loss must be specifically excluded or limited by the policy.

The Special Form contains five groups of exclusions, as follows:

3. Group 1—Concurrent Causation/Sequential Causation Exclusions

These exclusions have anti-concurrent causation verbiage, which eliminates coverage for loss caused by one of these excluded Causes of Loss, even if the loss resulted from multiple causes of loss and one of these causes is a Covered Cause of Loss.

4. Group 2—Concurrent Causation Exclusions

These exclusions eliminate coverage for loss or damage from specified causes of loss. Anti-concurrent causation does not apply.

5. Group 3—Conditional Exclusions

Group 3 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.

6. Group 4—Special Exclusions

The Special Exclusions detailed in the policy pertain only to specific coverage forms.

7. Group 5—Additional Exclusion

The sole Additional Exclusion, Loss Or Damage To Products, states that there is 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 resulting Covered Causes of Loss from the error or omission.














In addition to Exclusions, the Causes Of Loss – Special Form contains a number of Limitations, which exclude or limit coverage in specific situations.

The Causes Of Loss – Special Form also contains two Additional Coverages for Collapse and Limited Coverage for “Fungus”, Wet Rot, Dry Rot, and Bacteria, as well as three Additional Coverage Extensions.

Several exclusions and Limitations in the Causes Of Loss – Special Form can be modified through endorsement. A complete list of endorsements discussed in this section is included below.

Endorsements in Section 2

Below is a list of the endorsements mentioned in this section.

	Ordinance Or Law Coverage CP 04 05 09 17
	Ordinance Or Law Coverage For Tenant's Interest In Improvements And Betterments (Tenant's Policy) CP 04 26 09 17
	Earthquake And Volcanic Eruption Coverage With Percentage Deductible Endorsement CP 10 40 02 19 OR Earthquake And Volcanic Eruption Coverage With Flat-Dollar Deductible CP 10 28 02 19
	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) CP 10 29 02 19
	Radioactive Contamination CP 10 37 10 00
	Utility Services – Direct Damage CP 04 17 10 12
	Spoilage Coverage CP 04 40 12 20
	Flood Coverage Endorsement CP 10 65 10 12
	Discharge From Sewer, Drain Or Sump (Not Flood-Related) CP 10 38 10 12
	Equipment Breakdown Cause Of Loss CP 10 46 10 12
	Equipment Breakdown Protection Coverage Form EB 00 20 01 13
	Exclusion Of Loss Due To By-Products Of Production Or Processing Operations (Rental Properties) CP 10 34 10 12
	Protective Safeguards CP 04 11 09 17

Section 2: Commercial Property Causes of Loss and Endorsements

	Burglary And Robbery Protective Safeguards CP 12 11 09 17
	Theft Exclusion CP 10 33 10 12
	Windstorm Or Hail Exclusion CP 10 54 06 07
	Vandalism Exclusion CP 10 55 06 07
	Sprinkler Leakage Exclusion CP 10 56 06 07
	Theft Of Building Materials And Supplies (Other Than Builders Risk) CP 10 44 10 12
	Limitations On Coverage For Roof Surfacing CP 10 36 10 12
	Changes - Fungus, Wet Rot, Dry Rot And Bacteria CP 04 31 04 02
	Cyber Incident Exclusion CP 10 75 12 20 and Cyber Incident Exclusion With Ensuing Cause(s) Of Loss Exceptions CP 10 76 12 20
	Exclusion Of Loss Due To Virus Or Bacteria CP 01 40 07 06

Section 2: Self-Quiz

Directions: Circle the correct item to indicate whether each of the following exclusions is a Group 1 (Concurrent Causation/Sequential Causation) exclusion or a Group 2 (Concurrent Causation) exclusion.

1. Earth Movement

Group 1

Group 2

2. Delay, Loss of Use, or Loss of Market

Group 1

Group 2

3. Seepage or Leakage of Water

Group 1

Group 2

4. Governmental Action

Group 1

Group 2

5. Utility Services

Group 1

Group 2

6. Collapse

Group 1

Group 2

Section 2: Commercial Property Causes of Loss and Endorsements

Directions: Match the exclusion to the relevant policy endorsement or coverage. (Note: some exclusions can be addressed by more than one endorsement, and some endorsements can address more than one exclusion. Not all endorsements or exclusions are included in this activity.)

A. 1.b. Earth Movement	_____ Equipment Breakdown Cause of Loss
B. 1.d. Nuclear Hazard	_____ Earthquake And Volcanic Eruption Coverage With Percentage Deductible Endorsement
C. 1.e. Utility Services	_____ Discharge From Sewer, Drain Or Sump (Not Flood-Related)
D. 1.g. Water	_____ Spoilage Coverage
E. 2.e. Explosion of Steam Apparatus	_____ Radioactive Contamination

Directions: Answer the following questions. Some questions may have more than one correct answer. Select all that apply.

7. A tornado tears through an office building, leveling 70% of the building. A city ordinance dictates that the remaining 30% of the building must be torn down and rebuilt. Which coverage part of the Ordinance Or Law Coverage CP 04 05 09 17 endorsement will pay for the cost of demolishing the remaining portion of the building and removing debris?
 - ☐ Coverage A
 - ☐ Coverage B
 - ☐ Coverage C
 - ☐ Post-Loss Ordinance Or Law Option

8. Gina's Golf Emporium is located at the bottom of a hill. A heavy rainstorm causes a mudslide, which carries rocks and other debris down the hill, causing significant damage to the exterior of Gina's Store. Is this damage covered on an unendorsed Causes Of Loss - Special Form?
 - ☐ Yes, because the Water exclusion contains an exception for waterborne material.
 - ☐ Yes, because the Additional Coverage - Collapse provides coverage for damage from mudslide.
 - ☐ No, because NFIP flood policies do not cover damage from mudslide.
 - ☐ No, because the Water exclusion excludes mudslide and waterborne material coverage.

Section 2: Commercial Property Causes of Loss and Endorsements

9. Henry is a temporary, seasonal worker at an antique store. He obtains the codes to unlock the building and shares them with a friend who is not employed at the store. After hours, Henry and his friend break into the store and steal valuable items. Would this be covered on an unendorsed Causes Of Loss – Special Form?
- ☐ Yes, because the Special Form contains an Additional Coverage Extension for Dishonest or Criminal Acts by Specific Individuals.
 - ☐ Yes, because Henry is not a permanent employee and a non-employee also participated in the theft.
 - ☐ No, because the exclusion for Dishonest or Criminal Acts By Certain Individuals pertains to temporary employees, as well as acts of collusion.
 - ☐ No, because theft is excluded on the Causes Of Loss – Special Form.
10. LaShawn is taking inventory one day and discovers that significant amounts of his stock have gone missing, but there is no physical evidence of theft or break-in. Would the missing items be covered on an unendorsed Causes Of Loss – Special Form?
- ☐ Yes, because theft is not specifically excluded by the form.
 - ☐ Yes, but only up to a limit of \$2,500.
 - ☐ No, because theft is excluded by the Causes Of Loss – Special Form.
 - ☐ No, because there is a coverage limitation excluding missing property when there is a lack of physical evidence.
11. A jewelry store specializing in diamond engagement rings is broken into and \$50,000 worth of items are stolen. Is there coverage for these items on an unendorsed Causes Of Loss – Special Form?
- ☐ Yes, because theft is not specifically excluded by the form.
 - ☐ Yes, but only up to a limit of \$2,500.
 - ☐ No, because theft is excluded by the Causes Of Loss – Special Form.
 - ☐ No, because jewelry valued at over \$100 per item is excluded from coverage.
12. Which of the following would be paid for by the Additional Coverage – Limited Coverage For “Fungus”, Wet Rot, Dry Rot and Bacteria? (Select all that apply.)
- ☐ Direct physical loss or damage to Covered Property, including the removal of the “fungus,” wet rot, dry rot, or bacteria.
 - ☐ The cost of removal for “fungus,” wet rot, dry rot, or bacteria caused by flood, on an unendorsed Causes Of Loss – Special Form.
 - ☐ The cost to tear out and replace any part of the building as needed to gain access.
 - ☐ The cost of testing performed after removal to ensure that the remediation was successful, if there is a reason to believe that “fungus,” wet rot, dry rot, or bacteria may be present.
 - ☐ The cost of additional testing and removal for a recurrence of “fungus,” wet rot, dry rot, and bacteria in the second year of the policy, after the \$15,000 aggregate limit was met during the first year of the policy.

Set Yourself Up for Success!

Visit the “Resources” Webpage at RiskEducation.org/CPresources

For valuable reinforcement, be sure to visit the “Resources” webpage. This webpage contains a variety of materials that will help you absorb the course material *and* set you up for success on the Final Exam. You’ll find:

Study Guide

Download a copy of the Study Guide. It contains all the Check-In questions, Knowledge Checks, and Self-Quizzes contained in this Learning Guide in a format that makes it easy for you to practice and check your answers.

Flash Cards Study Set

Play an interactive vocabulary game with a study set of digital flashcards to enhance your learning of the insurance and risk management terms used in this course.

Review Game

Use a fun, trivia-style review game to test your knowledge and prepare for the Final Exam.

Video Clips

View video clips about important concepts related to the learning objectives in this section.



Special Form Exclusions: Group 1 vs. Group 2

In Addition...

Policies and Forms

For your reference, a copy of the policies and forms discussed in this section are provided on the following pages.

Appendix

The Appendix of this Learning Guide contains a Glossary of terms as well as tips for study techniques and sample test questions that will help you prepare for the Final Exam.

Section 2

Causes Of Loss – Special Form CP 10 30 09 17

COMMERCIAL PROPERTY
CP 10 30 09 17

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.

Ordinance Or Law Coverage CP 04 05 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.

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

Exclusion Of Loss Due To Virus Or Bacteria CP 01 40 07 06

COMMERCIAL PROPERTY
CP 01 40 07 06

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

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 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.

Section 3: Time Element Coverages and Endorsements

Section 3: Time Element Coverages and Endorsements

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 through endorsement.

Due to its length, Section 3 is presented in two parts. Summaries and self-quizzes have been prepared to reinforce the materials and enhance learning and are presented at the end of each part.

Learning Objectives:

Part 1

- 3.1 *Define key terms from the Business Income (And Extra Expense) Coverage Form, and describe the elements needed to trigger business income and/or extra expense coverage.*
- 3.2 *Identify endorsements that are relevant to specific exposures, and understand how they can modify the Business Income (And Extra Expense) Coverage Form.*
- 3.3 *Describe relevant exclusions and limitations, including:*
 - *the five Special Exclusions contained in the Causes Of Loss – Special Form*
 - *the Additional Limitation – Interruption of Computer Operations from the Business Income (And Extra Expense) Coverage Form.*
- 3.4 *Identify and describe the endorsements that can provide coverage for causes of loss that would otherwise be excluded or limited.*
- 3.5 *Apply the four Additional Coverages and the one Coverage Extension for Newly Acquired Locations to explain how the Business Income (And Extra Expense) Coverage Form provides coverage in the event of a loss.*
- 3.6 *Identify endorsements that are relevant to specific exposures, and understand how they can modify the Additional Coverages and/or Coverage Extension in the Business Income (And Extra Expense) Coverage Form.*

Part 2

- 3.7 *Describe how the four Loss Conditions apply to the amount of loss payment.*
- 3.8 *Identify and describe endorsements that can modify the Loss Conditions in the Business Income (And Extra Expense) Coverage Form.*

Section 3: Time Element Coverages and Endorsements

- 3.9 Explain how the coinsurance formula for Business Income differs from the coinsurance formula for commercial property insurance, including:
- factors that should be used to determine the appropriate Limit of Insurance,
 - the coinsurance percentage, and
 - methods used to avoid a coinsurance penalty.
- 3.10 Apply the coinsurance formula to calculate a business income loss settlement.
- 3.11 Apply the four Optional Coverages in the Business Income (And Extra Expense) Coverage Form to determine how claims are settled.
- 3.12 Describe how extra expenses are paid to reduce loss under the Business Income (Without Extra Expense) Coverage Form compared to the Business Income (And Extra Expense) Coverage Form.
- 3.13 Given a scenario, determine the amount paid for Extra Expense under the Extra Expense Coverage Form.
- 3.14 Identify and describe endorsements that can modify the Extra Expense Coverage Form.
- 3.15 Describe the four Covered Leasehold Interests outlined in the Leasehold Interest Coverage Form, and explain how coverage is triggered.

Part 1

Introduction to Time Element Coverage

Most businesses understand the importance of insuring their tangible property against potential loss. However, there is another critical safeguard to consider in the event that a covered loss results in the suspension of business operations—time element insurance.

Why is it called “time element” coverage?

Time element is a property insurance term referring to coverage in which the measurement of loss is tied to a period of time. Time element insurance pays for losses related to an insured being unable to conduct its customary operations as a result of direct physical loss to property from a Covered Cause of Loss. The amount of loss is directly related to the amount of time it will take to repair or replace the damaged property so that it can be put back to its normal use.

The Purpose of and Need for Business Income Coverage

Business income coverage is designed to replace a business’s lost net income and pay for normal continuing operating expenses incurred when damage to property by a Covered Cause of Loss results in a business interruption.



Business income insurance is essentially “disability income protection” for businesses. When an individual insured on a disability income policy is injured and cannot work, the policy steps in to replace their lost income.

Similarly, when a business’s operations stop or slow down due to damage to property by a Covered Cause of Loss, business income insurance steps in to replace lost income and pay for necessary ongoing operating expenses. Business income insurance can provide the financial cushion needed to keep a business afloat until it can reopen.

The following infographic provides more detail regarding the purpose of and need for business income coverage.



WHAT IS THE PURPOSE OF AND NEED FOR BUSINESS INCOME COVERAGE?

The cost of repairing or replacing damaged property is not the only potential exposure for business owners. When property is destroyed or damaged, business owners must either temporarily close or they must move to quickly relocate their operations. The following are just a few reasons for why business income coverage is so crucial.



To do what the business would have done for itself had no loss occurred

Business income coverage provides funds to replace the business's lost net income and pay for expenses that continue even when the business is interrupted. This coverage can last for the time it should take for business to be restored to normal operations.

Necessary for every business

The loss of income and additional expenses incurred by businesses as a result of direct damage to property can have a devastating effect. FEMA reports that 40-60% of small businesses will never reopen following a disaster.*



To reduce the likelihood of errors and omissions

Failure to address the business income exposure may lead to a significant errors and omissions exposure for insurance agents.

*Bruce R. Lindsay, "Considerations for Implementing a Small Business Disaster Grant Program," Congressional Research Service, February 26, 2019, <https://crsreports.congress.gov/product/pdf/R/R45554/>.

Why is business income coverage not widely purchased?

According to The Center for Insurance Policy and Research, only 30–40% of small business owners carry business income insurance.⁴ If business income insurance is so crucial, why is it not purchased by every business owner? There are several reasons.



1. It is hard to visualize the financial impact.

While it is easy to visualize building and personal property losses, it is harder to think through how time element losses may impact a business. When asked to imagine a fire ravaging a business, most people would probably picture the rubble and ruins before considering the loss of income that the business would face while rebuilding.

2. Business income coverage can be difficult to understand.

Business income coverage forms can be complicated and hard to comprehend. It is also difficult to determine how much business income coverage is needed.

3. Business income insurance has not traditionally been required by lending institutions, though this is starting to change.

4. It can be 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. There is a perceived lack of benefit compared to the cost.

With a limited budget, business owners may see the value in other insurance products over business income insurance.

⁴ "Business Interruption/Business Owner's Policies (BOP)", The Center for Insurance Policy and Research, National Association of Insurance Commissioners, updated February 1, 2023, <https://content.naic.org/cipr-topics/business-interruptionbusinessowners-policies-bop>

Financial Elements of a Business Income Loss

The financial elements of a business income loss consist of the following:

- Gross revenue, including:
 - Gross sales
 - Other sources of income such as investment income, royalties, etc.



Think About It

If a business is forced to temporarily close due to a property loss, would all sources of revenue stop? Which type(s) of revenue is most likely to be lost during a closure?

- Operating expenses, broken down by:
 - Those expenses that continue
 - Those expenses that do not continue
- Net income (profit or loss)

Time Element Insurance Design

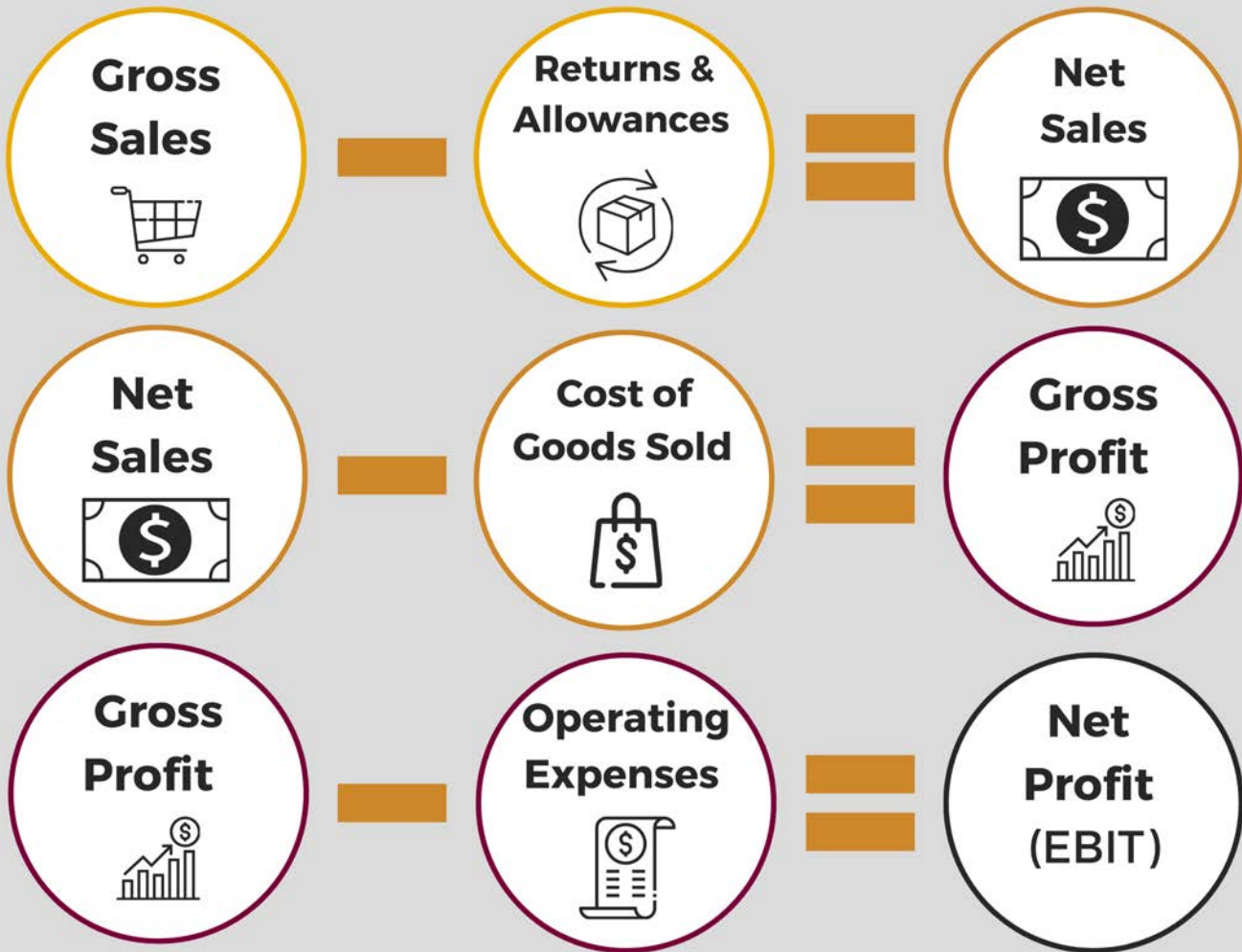
Time element insurance is designed to provide financial protection for businesses, which means that insurance professionals must be familiar with the components of an **income statement**, or profit and loss statement. Though reviewing an income statement may seem daunting at first, the basic concepts that the insurance professional needs to understand are important aspects of the risk analysis and limit determination process.

Income Statement Basics

The steps for calculating net profit for an income statement are:

1. Start with the *gross sales*, and subtract returns and allowances to determine *net sales*.
2. Subtract the *cost of goods sold* from the *net sales* to determine *gross profit*.
3. Next, subtract the *operating expenses* (the expenses incurred by the business to generate sales, except the cost of the goods).
4. The result is the *net profit* (sometimes called *earnings before interest and taxes*, or *EBIT*).

Income Statement Terms



Section 3: Time Element Coverages and Endorsements



ABC Sales and Service Income Statement 12 months ended December 31, 20XX	
Gross Sales	\$ 1,300,000
Less returns and allowances	\$ 100,000
Net Sales	\$ 1,200,000
Cost of goods sold (including handling and packaging)	\$ 600,000
Gross Profit	\$ 600,000
Operating expenses	
Salaries Owner	\$ 100,000
Salaries Other	\$ 120,000
Automobiles	\$ 10,000
Maintenance	\$ 5,000
Professional Fees	\$ 5,000
Insurance	\$ 20,000
Utilities	\$ 10,000
Rent	\$ 80,000
Total Operating Expenses	<u>\$ 350,000</u>
Net Profit (Pre-Tax)	\$ 250,000

In the examples above, ABC Sales and Service has gross sales of \$1.3 million, and after subtracting returns and allowances, net sales of \$1.2 million. Then \$600,000 for the cost of goods sold is subtracted, leaving a gross profit of \$600,000. Next, the operating expenses, which total \$350,000 and include items such as salaries, automobiles, insurance, etc., are subtracted from the gross profit to arrive at a net profit of \$250,000.

This example provides a basic overview of the key income statement terms with which commercial insurance professionals should be familiar.

ISO Time Element Coverage Forms

There are four ISO Time Element coverage forms.

1. Business Income (And Extra Expense) Coverage Form CP 00 30 10 12

This is the most frequently used ISO Time Element coverage form. It provides reimbursement for both lost income and extra expenses incurred as a result of a direct loss to property. The majority of this section will focus on this form.

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

This form provides the same business income coverage as the CP 00 30 10 12, but without extra expense coverage. It does, however, include a coverage called Expenses to Reduce Loss. This pays necessary expenses, but only to the extent that they do not exceed the amount of loss otherwise payable under this coverage form. With this form, the insurance company's maximum responsibility does not change whether the insured incurs extra expenses or not.

3. Extra Expense Coverage Form CP 00 50 10 12

This form only covers extra expenses incurred as a result of a direct property loss. It applies to businesses that cannot afford to be closed if a covered loss occurs. Examples of these types of businesses include hospitals, law firms, insurance agencies, and newspapers.

4. Leasehold Interest Coverage Form CP 00 60 06 95

This coverage form applies to a tenant who has an attractive lease, such as an advantageous business location with a rental price that would be difficult to secure elsewhere. It provides protection for lost financial interest resulting from the cancellation of a lease, for example, higher operating expenses due to increased rent.

Other Methods of Providing Business Income Coverage

In addition to the four time element forms detailed above, there are other methods of providing business income coverage. Some examples of these methods include:

1. Builders Risk Policies

Builders risk policies can be endorsed to provide time element coverage.

2. Businessowner Policies (BOP)

BOPs automatically provide some time element coverages. One of the features includes no specific dollar limit for the period of time coverage is provided.

3. Business Auto Policies

Business auto policies can be endorsed to provide time element coverage.

4. Contractors Equipment Policies

Contractors equipment policies can be endorsed to provide time element coverage.

5. Cyber Insurance Policies

Cyber insurance policies can cover the income loss after a privacy or security breach impacts a business.

6. Equipment Breakdown Policies

Equipment breakdown policies can provide time element coverage.

7. Electronic Data Processing (EDP) Policies

EDP policies may include time element coverage.

8. Differences in Conditions (DIC) Policies

DIC policies may provide time element coverage when it is not provided by other policies.

Business Income and Extra Expense Coverage

Learning Objectives:

- 3.1 Define key terms from the Business Income (And Extra Expense) Coverage Form, and describe the elements needed to trigger business income and/or extra expense coverage.
- 3.2 Identify endorsements that are relevant to specific exposures, and understand how they can modify the Business Income (And Extra Expense) Coverage Form.

The remainder of this section will analyze the time element coverages provided in the Business Income (And Extra Expense) Coverage Form CP 00 30 10 12.

A graphic showing the structure of this coverage form will be used to indicate which parts and sections of the form are being discussed throughout the course. The course analysis will begin with coverage, as well as the defined terms necessary to understand how coverage applies.

Business Income Coverage

Business Income (And Extra Expense) Coverage Form

A. Coverage

1. Business Income
 2. Extra Expense
 3. Covered Causes of Loss, Exclusions, and Limitations
 4. Additional Limitation— Interruption of Computer Operations
 5. Additional Coverages
 6. Coverage Extension
- B. Limits of Insurance
- C. Loss Conditions
- D. Additional Condition: Coinsurance
- E. Optional Coverages
- 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.

Business Income Defined

Business Income is defined in Section A of the form as meaning the **Net Income** (net profit or loss before income taxes) that would have been earned or incurred and **continuing normal operating expenses** incurred, including payroll.

The acronym NICE can be used to remember the components of Business Income.

It is important to note that the Named Insured may recover even if the business would have incurred a net loss. In this situation, the policy may pay for continuing normal operating expenses minus the amount of the net loss.

BUSINESS INCOME

Net
Income* earned or
incurred, and
Continuing normal
operating
Expenses incurred
(including payroll)

*Net Income= net profit or
loss before income taxes

Section 3: Time Element Coverages and Endorsements



The following examples help illustrate how Net Income is determined. These examples show an overview of two businesses, one with a profit and the other with a loss.

	Net Profit or 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 next three examples 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)	\$ 514	
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)	\$ 514	
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)	\$ 514	
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		

Note that in examples 2 and 3, the payment was less than the continuing operating expenses due to a Net Income loss. In both scenarios, the Named Insured is left in the same financial situation they would have been in had the loss not occurred. This is because the purpose of Business Income Coverage is not to improve the Named Insured's financial situation, but rather to put them back to where they would have been had the loss not occurred.

Manufacturing Risks Net Income

Manufacturing Risks Net Income is based on the net sales value of production. This consists of the net sales from products that would have been produced only during the shutdown period.

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

It does not include anything already produced and stockpiled (**finished goods**), or the time to replace finished goods. Business Income coverage does not deal with finished goods, because it is only designed to replace lost income resulting from a suspension of operations, and finished goods would have been manufactured prior to the suspension.



As was discussed in Section 1, the **Building and Personal Property Coverage Form CP 00 10 10 12** values stock that has been sold but not delivered at selling price, which includes profits, less discounts and expenses, the Named Insured otherwise would have had. To cover the profits in finished goods that have not been sold, the insured would need to add the **Manufacturer's Selling Price Endorsement (Finished "Stock" Only) CP 99 30 06 95** to the Building and Personal Property Coverage Form.

Coverage Options

There are three available coverage options, giving the Named Insured the flexibility to select different types of coverage for which a limit is shown in the Declarations.

1. **Business Income Including "Rental Value"**
2. **Business Income Other than "Rental Value"**

This coverage option is exclusionary—no "Rental Value" coverage is provided.

3. **"Rental Value"**

This coverage option is also exclusionary—no Business Income coverage other than "Rental Value" is provided.

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.



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.

"Rental Value" is a defined term, as shown in Section F of the form. It includes the Named Insured's Net Income (net profit or loss before taxes) that would have been realized from rental

income received from tenants, including the fair "rental value" of portions occupied by the Named Insured. The other component of "rental value" is continuing normal operating expenses, including:

- Obligations (by contract) of the tenant, such as taxes, insurance, or utilities that must be assumed by the landlord—in other words, continuing charges for which the tenant would have been legally responsible. This also includes the cost of renting equivalent temporary replacement quarters when the Named Insured occupies a portion of the premises.



Tip:

When discussing exposures for lessor's risk accounts, it is a good idea for agents, in addition to asking about the annual rents, to also ask about what bills the tenant is currently paying that would become the responsibility of the Named Insured if the tenant were no longer occupying the property.

Business Income Insuring Agreement

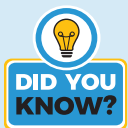
The Business Income Insuring Agreement contains the insurer's promise to pay. There are several requirements for coverage to apply, which are as follows :

- There must be an *actual loss* sustained—this is not a **valued policy**. This means the Named Insured must prove their loss for the insurance company to pay.
- There must be a necessary **"suspension" of "operations"** resulting from direct physical loss of or damage to property at the described premises caused by a Covered Cause of Loss. Both "operations" and "suspension" are defined in Section F of the coverage form and will be explained shortly.
- The loss from the "suspension" of "operations" must occur and will be paid during the **"period of restoration."** "Period of restoration" is defined in Section F of the coverage form and will be explained shortly.

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.



During the beginning of the COVID-19 pandemic, many businesses were forced to shut down due to government mandates and health concerns. Do you think Business Income losses were covered for those businesses?

Answer: In most cases, these losses were not covered because the virus was not considered a *direct physical loss or damage caused by a Covered Cause of Loss*.



Before continuing the analysis of the Insuring Agreement, it is beneficial to review these key definitions from Section F of the coverage form.

Table 3.1

Term and Policy Definition	Explanation
<p>“Suspension”</p> <p>6. "Suspension" means:</p> <ol style="list-style-type: none"> The slowdown or cessation of your business activities; or That a part or all of the described premises is rendered untenable, if coverage for Business Income Including "Rental Value" or "Rental Value" applies. 	<p>A “suspension” is a slowdown or cessation of the Named Insured’s business activities—what the Named Insured does, such as manufacturing, sales, and service, etc. Note that “operations” do not need to cease entirely. A slowdown in which the business is still in operation at some level qualifies as a “suspension.”</p> <p>A special provision states that if “Business Income Including Rental Value” or “Rental Value” coverage apply, part or all of the described premises must be untenable during the “suspension.”</p>
<p>“Operations”</p> <p>2. "Operations" means:</p> <ol style="list-style-type: none"> Your business activities occurring at the described premises; and The tenantability of the described premises, if coverage for Business Income Including "Rental Value" or "Rental Value" applies. 	<p>“Operations” means the Named Insured’s business activities that occur at the described premises.</p> <p>The special provision for “Business Income Including Rental Value” and “Rental Value” coverage includes the tenantability of the described premises in the definition—essentially, can the premises be occupied for its intended purpose?</p>
<p>“Period of Restoration”</p> <p>3. "Period of restoration" means the period of time that:</p> <ol style="list-style-type: none"> Begins: <ol style="list-style-type: none"> 72 hours after the time of direct physical loss or damage for Business Income Coverage; or 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 Ends on the earlier of: <ol style="list-style-type: none"> The date when the property at the described premises should be repaired, rebuilt or replaced with reasonable speed and similar quality; or The date when business is resumed at a new permanent location. 	<p>The “period of restoration” for <i>Business Income Coverage begins 72 hours</i> after the time of direct physical loss or damage caused by or resulting from a Covered Cause of Loss at the described premises.</p> <p>The “period of restoration” for <i>Extra Expense Coverage begins immediately</i> after the time of direct physical loss or damage caused by or resulting from a Covered Cause of Loss at the described premises.</p> <p>The “period of restoration” <i>ends</i> on the date when the property at the described premises <i>should be</i> repaired, rebuilt, or replaced with similar quality using reasonable speed OR when the Named Insured’s “operations” resume at a new permanent location.</p>



Note:

The expiration date of the policy has no effect on the “period of restoration.” The policy in force at the time loss is triggered and pays for the entire “period of restoration.”

Period of Restoration

The following graphic shows how the “period of restoration” differs for the Business Income and Extra Expense Coverages.



Section 3: Time Element Coverages and Endorsements

There are endorsements available to modify the “period of restoration” for Business Income coverage. One such endorsement is:

Business Income Changes – Beginning Of The Period Of Restoration CP 15 56 06 07



This endorsement allows the waiting period for business income to be reduced from 72 hours to 24 hours or be eliminated completely.

It is important to note that the definition of the “period of restoration” *does not include* the following:

- Extra time due to enforcement of any ordinance or law involving demolition, construction, or use of any property.
- Extra time due to enforcement of any ordinance or law involving cleanup and removal of **“pollutants.”**

“Pollutants” is a defined term in Section F of the form.

“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.

An endorsement is available to modify the “period of restoration” with respect to the enforcement of ordinances or laws.

Ordinance Or Law – Increased Period Of Restoration CP 15 31 09 17



POLICY NUMBER:	COMMERCIAL PROPERTY CP 15 31 09 17
THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.	
ORDINANCE OR LAW – INCREASED PERIOD OF RESTORATION	
This endorsement modifies insurance provided under the following:	
BUSINESS INCOME (AND EXTRA EXPENSE) COVERAGE FORM BUSINESS INCOME (WITHOUT EXTRA EXPENSE) COVERAGE FORM EXTRA EXPENSE COVERAGE FORM	
SCHEDULE	
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.	

This endorsement is used to extend the “period of restoration.” It includes the additional time required to repair or rebuild property in accordance with the requirement to comply with or the enforcement of codes that are *in force at the time of loss*.

This 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.

Check-In



Directions: Indicate whether the following statements are true or false regarding the “period of restoration.”

1. The “period of restoration” for 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 premises.

True

False

2. The “period of restoration” for Extra Expense 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.

True

False

3. The “period of restoration” ends on the date when the property at the described location should be repaired, rebuilt, or replaced with like kind and quality and using reasonable speed.

True

False

4. The “period of restoration” ends 45 days after the insured’s “operations” resume at a new permanent location.

True

False

5. The policy expiration date ends the “period of restoration.”

True

False

Business Income Insuring Agreement Analysis

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 this key terminology in mind, it is now time to return to the analysis of the Business Income Insuring Agreement.

The “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.

Section 3: Time Element Coverages and Endorsements

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 Building and Personal Property Coverage Form
 - The direct physical damage can occur to any property, even property considered property not covered.
- that the damaged property be property of the Named Insured
 - Damaged property can be property of others.
- that the direct damage and the loss of income be incurred at the same location
 - Damage to one location may affect the income of another location of the Named Insured.
- that the loss of income has to take place at a scheduled location
 - The loss of income does not have to be at a scheduled property, but the direct physical damage has to occur at the premises described on the Declarations.

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 the 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);

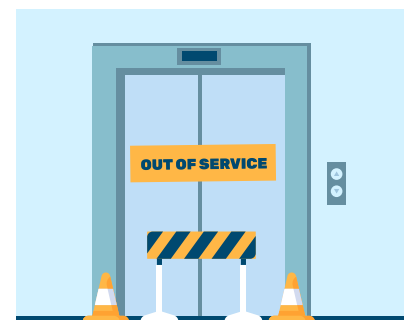


A Named Insured is storing equipment in a trailer parked within 100 feet of the described premises.

- c. Any area within the building at the described premises if that area is used to gain access to the portion of the building the Named Insured tenant rents, leases, or occupies, or services the premises.



A fire in a portion of the building damages the stairwell and elevators, rendering them unusable, but the Named Insured's office on the 5th floor is undamaged. The Named Insured cannot access their office until the stairwell and/or elevators have been repaired.



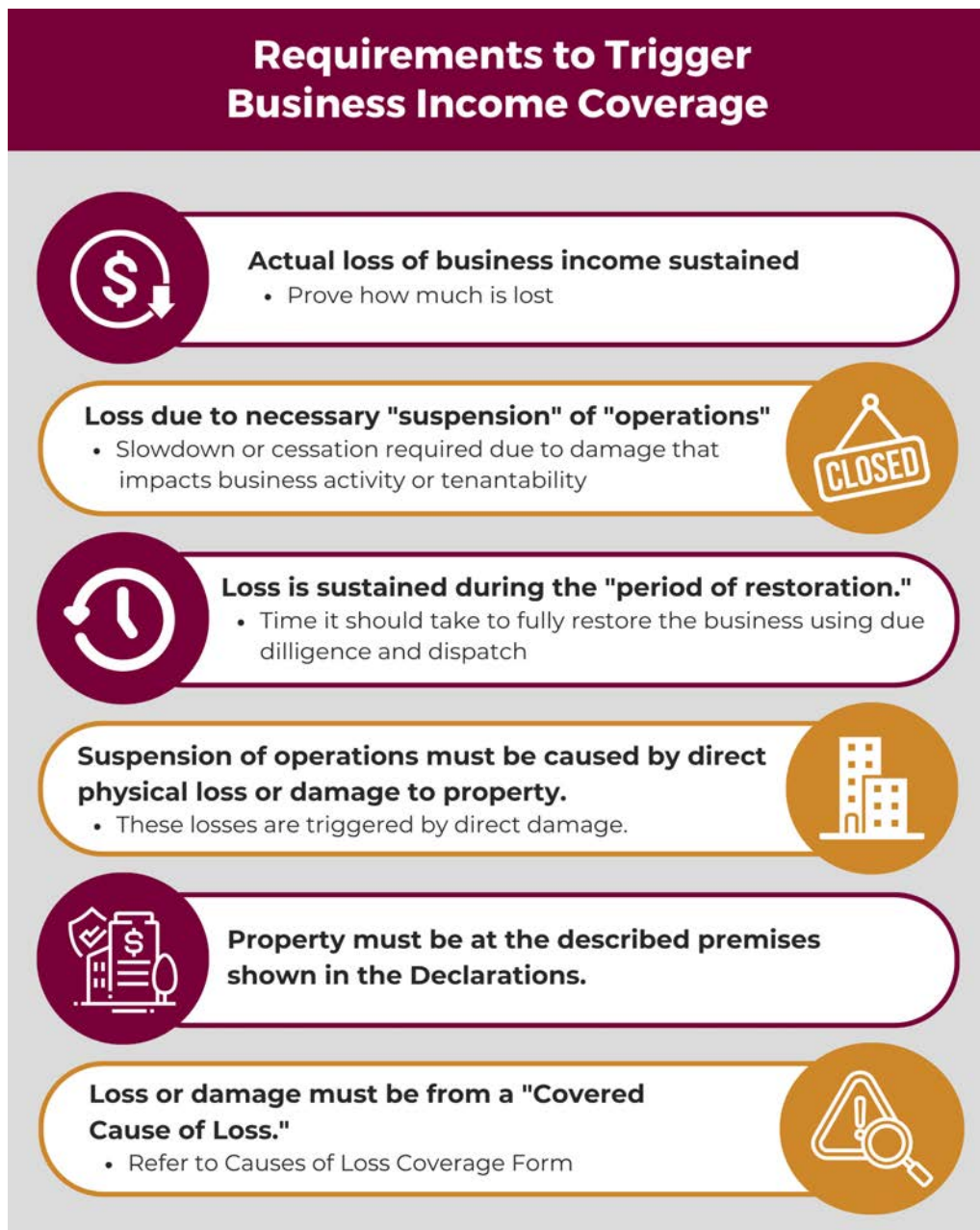


Note:

Damage to premises not described, such as a supplier's premises, a customer's premises, etc., could cause the Named Insured to suffer a loss of Business Income. This would not be covered.

Dependent property exposures and the available endorsement will be discussed shortly.

The following graphic summarizes the requirements for Business Income coverage to be triggered.



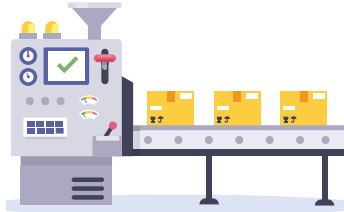



Dependent Properties Exposure

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 (sometimes referred to as contingent business income).

There are four types of dependent properties, as shown in the following table.

Table: 3.2

Dependent Properties	Description	Example
<p>Contributing Locations</p> 	<p>Another business that provides goods and services to the Named Insured. The Named Insured relies on this business for raw materials.</p>	<p>A textile operation relies on a supplier for cotton thread. If the supplier of cotton thread were to shut down temporarily due to a fire, the textile manufacturer could experience a production delay, resulting in a loss of business income.</p>
<p>Recipient Locations</p> 	<p>Another business that purchases the Named Insured's goods or services. The Named Insured relies on this business for sales.</p>	<p>A factory produces raw plastic that is sold to a toy manufacturer, accounting for 80% of its business. If the toy company is destroyed by a tornado, the plastics manufacturer would experience a business income loss.</p>
<p>Manufacturing Locations</p> 	<p>Another business that makes a product for the Named Insured and provides it directly to the Named Insured's customers. The Named Insured relies on this business for production and distribution.</p>	<p>A company operates out of a small office and takes orders for a kitchen supplies manufacturer, who ships to the customers directly. If the kitchen supplies manufacturer must shut down due to a covered loss, the company now faces a potential business income loss due to low inventory.</p>
<p>Leader Locations</p> 	<p>Another business that attracts customers to the Named Insured's business. The Named Insured relies on this business to bring in customers.</p>	<p>A small store in a mall relies on a large department store to attract the traffic that serves as their customer base. If the large department store must close temporarily due to a covered loss, the small store will face a potential business income loss due to a reduction in customer traffic.</p>

Section 3: Time Element Coverages and Endorsements

There are several endorsements available to address the dependent properties exposure.

Business Income From Dependent Properties – Limited Form CP 15 09 10 12



POLICY NUMBER:		COMMERCIAL PROPERTY CP 15 09 10 12
THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.		
BUSINESS INCOME FROM DEPENDENT PROPERTIES – LIMITED FORM		
This endorsement modifies insurance provided under the following:		
BUSINESS INCOME (AND EXTRA EXPENSE) COVERAGE FORM BUSINESS INCOME (WITHOUT EXTRA EXPENSE) COVERAGE FORM		
SCHEDULE		
Name And Describe Occupancy And Location		Limit Of Insurance
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.		

This endorsement is used to cover the Named Insured's loss of income when a direct damage loss from a Covered Cause of Loss occurs at the premises of another business upon which the Named Insured depends. It does not provide Extra Expense Coverage and can be used with either of the business income coverage forms in either of the following situations:

- The Named Insured is not insuring their own location for Business Income, or
- The Named Insured wants different Business Income limits than they carry at their own location.

The Business Income From Dependent Properties – Limited Form has a separate Limit of Insurance for each dependent property shown for each scheduled location. The limits shown on this endorsement are separate from any other Business Income limits that apply to direct damage at the Named Insured premises. Coinsurance does not apply.

Section 3: Time Element Coverages and Endorsements

This endorsement can include coverage for secondary Contributing and Recipient Locations. Secondary Contributing locations supply goods and services to the Named Insured's named Contributing locations, and secondary Recipient Locations are the customers of the Named Insured's named Recipient locations. These secondary locations do not need to be named on the form, as the Named Insured may not have that information.

There is no coverage for any of the following:

- Loss at a dependent property that is caused by a loss to electronic data;
- Water, power, communication, internet, or wastewater utilities;
- Roads, bridges, tunnels, airfields, pipelines, or other similar structures.

Business Income From Dependent Properties – Broad Form CP 15 08 10 12



POLICY NUMBER:	COMMERCIAL PROPERTY CP 15 08 10 12
THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.	
BUSINESS INCOME FROM DEPENDENT PROPERTIES – BROAD FORM	
This endorsement modifies insurance provided under the following:	
BUSINESS INCOME (AND EXTRA EXPENSE) COVERAGE FORM BUSINESS INCOME (WITHOUT EXTRA EXPENSE) COVERAGE FORM	
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.	

Like the Business Income From Dependent Properties – Limited Form, this endorsement is used to cover the Named Insured's loss of income when a direct damage loss from a Covered Cause of Loss occurs at the premises of another business on which the Named

Section 3: Time Element Coverages and Endorsements

Insured depends. It can be used with either of the business income coverage forms and is only used when the Named Insured is insuring their own premises.

This Broad Form endorsement differs from the Limited Form in that the Named Insured does not need to specify a separate limit for each dependent location. The Business Income limit for the described premises applies separately to each dependent property but does not increase the Limit of Insurance. The Business Income From Dependent Properties – Broad Form uses the same Limit of Insurance as the Business Income Coverage listed in the Declarations.

This endorsement can include coverage for secondary Contributing and Recipient Locations.

As with the Limited Form, there is no coverage for any of the following:

- Loss at a Dependent property caused by a loss to electronic data
- Water, power, communication, internet, or wastewater utilities
- Roads, bridges, tunnels, airfields, pipelines, or other similar structures

Business Income From Dependent Properties Limited International Coverage CP 15 01 10 12



POLICY NUMBER:	COMMERCIAL PROPERTY CP 15 01 10 12
<p>THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.</p> <p>BUSINESS INCOME FROM DEPENDENT PROPERTIES LIMITED INTERNATIONAL COVERAGE</p>	
This endorsement modifies insurance provided under the following:	
BUSINESS INCOME (AND EXTRA EXPENSE) COVERAGE FORM BUSINESS INCOME (WITHOUT EXTRA EXPENSE) COVERAGE FORM	
SCHEDULE	
Name And Describe Occupancy And Location	Limit Of Insurance
Contributing Locations:	\$
Secondary Contributing Locations (Not Named): <input type="checkbox"/>	
Manufacturing Locations:	\$
The Applicable Causes Of Loss Form Is: <input type="checkbox"/> Basic Form <input type="checkbox"/> Broad Form <input type="checkbox"/> Special Form	
Endorsements, if any, supplementing or restricting the Covered Causes of Loss with respect to the coverage provided under this endorsement:	
Information required to complete this Schedule, if not shown above, will be shown in the Declarations.	

This endorsement expands the Coverage Territory by eliminating that provision in the Commercial Property Conditions, as it relates to this endorsement. It provides coverage for Contributing and Manufacturing Locations, but no coverage for Recipient or Leader Locations.

Check-In



Directions: Match each example to the dependent property exposure it represents.

A. Contributing Location	_____ The anchor tenant in the local mall where the Named Insured's store is located
B. Recipient Location	_____ A company that provides key components that are used in the Named Insured's manufacturing process
C. Manufacturing Location	_____ The company that purchases 75% of the Named Insured's products
D. Leader Location	_____ The company that produces and distributes items directly to the Named Insured's customers

Extra Expense Coverage

Coverage for Extra Expense is included in the limit stated in the Declarations. It is not subject to a separate Limit of Insurance, and the coinsurance provision does not apply to this coverage.

Extra Expense means necessary expenses incurred during the "period of restoration" that would not have been incurred had there been no direct physical loss or damage.

Extra Expense Other than to Repair or Replace Property

Some Extra Expenses are covered without regard to whether or not they reduce the Business Income loss. The policy will pay for the expenses (other than the cost to repair or replace property) necessary to:

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.

Section 3: Time Element Coverages and Endorsements

1. Avoid or minimize the “suspension” of business and to continue “operations” at the described premises or at replacement premises or temporary locations (including the cost to relocate and equip and operate a new location)



A Named Insured’s office building burns in a fire. The policy will pay for the extra expenses of moving to a temporary location and equipping the new office to conduct business.

2. Minimize the “suspension” of business if the Named Insured cannot continue “operations” at the described premises or a replacement premises or temporary location



A Named Insured’s hair and nail salon is significantly damaged by a fire. The policy will pay for extra expenses necessary to reopen the salon as soon as possible, including the cost of employee overtime to prepare for reopening.

Extra Expense to Repair or Replace Property

Extra Expenses necessary to repair or replace property are covered, but only to the extent that they reduce the Business Income loss or the Extra Expense loss. These are sometimes referred to as *expediting extra expenses*.



In the previous example, the owner of the hair and nail salon might need to pay extraordinary charges to expedite shipping on hood dryers in order to reopen the salon several weeks sooner than if they waited for standard shipping.





Knowledge Check



Directions: Explain the terms business income and extra expense and describe how they differ.

1. Business Income:

2. Extra Expense:

3. Difference:

Covered Causes of Loss, Exclusions, and Limitations

Learning Objectives:

3.3 Describe relevant exclusions and limitations, including:

- the five Special Exclusions contained in the Causes Of Loss – Special Form
- the Additional Limitation– Interruption of Computer Operations from the Business Income (And Extra Expense) Coverage Form.

3.4 Identify and describe the endorsements that can provide coverage for causes of loss that would otherwise be excluded or limited.

This subsection examines how the Business Income (And Extra Expense) Coverage Form determines Covered Causes of Loss, as well as the form’s Exclusions and Limitations. Special Exclusions outlined in the Causes Of Loss – Special Form that pertain specifically to Business Income (And Extra Expense) Coverage Form are also reviewed.

Business Income Covered Causes of Loss

Business Income (And Extra Expense) Coverage Form

A. Coverage

1. Business Income
2. Extra Expense
3. Covered Causes of Loss, Exclusions, and Limitations
4. Additional Limitation— Interruption of Computer Operations
5. Additional Coverages
6. Coverage Extension

B. Limits of Insurance

C. Loss Conditions

D. Additional Condition: Coinsurance

E. Optional Coverages

F. Definitions

3. Covered Causes Of Loss, Exclusions And Limitations

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

The Covered Causes of Loss for the Business Income (And Extra Expense) Coverage Form will be determined by the applicable Causes Of Loss form shown in the Declarations. While it is possible to have different Causes Of Loss forms apply to direct damage and time element coverages, this may not be advisable as it could create inconsistency in coverage and higher chances of the Named Insured having to pay out-of-pocket for certain losses.

Ordinary Exclusions

The “ordinary exclusions” outlined in the Causes Of Loss forms apply to both direct and indirect loss exposures, unless otherwise specified. These include the Causes Of Loss – Special Form exclusions that were outlined in Section 2.

There are several endorsements available to modify business income coverage with respect to these exclusions.

Ordinance Or Law – Increased Period Of Restoration CP 15 31 09 17



As mentioned earlier in this section, this endorsement extends the “period of restoration” to account for the impact of compliance with ordinances or laws.

Earthquake And Volcanic Eruption Coverage With Percentage Deductible Endorsement CP 10 40 02 19



When earthquake and volcanic eruption are added as Covered Causes of Loss for direct damage, they are also included in time element coverage.

Flood Coverage Endorsement CP 10 65 10 12



This endorsement allows the Named Insured to add flood as a Covered Cause of Loss to business income and extra expense coverage. This is important because National Flood Insurance Program (NFIP) policies do not include business income and extra expense coverages.

Utility Services – Time Element CP 15 45 09 17



This endorsement 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. This endorsement carries its own limit of insurance.

This 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. (This utility is not included in coverage on Utility Services—Direct Damage CP 04 17 10 12.)
- Communication Supply Property—meaning communication services that include telephone, radio, microwave, or television services to the described premises. The Named Insured must specify if coverage is needed for overhead transmission lines.
- Power Supply Property—meaning properties that supply electricity, steam, or gas. The Named Insured must specify if coverage is needed for overhead transmission lines.

The Named Insured can choose which of the utility services they would like to cover, and they may select differing waiting periods to reduce, eliminate, or even increase the waiting period.

Equipment Breakdown Cause Of Loss CP 10 46 10 12



This endorsement modifies only the Causes Of Loss – Special Form to include “Breakdown” of “Covered Equipment” and, as such, the Business Income form will 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.

Causes Of Loss—Special Exclusions

Causes Of Loss— Special Form

- A. Covered Causes Of Loss
- B. Exclusions
 - 1. Concurrent Causation/
Sequential Causation
 - 2. Concurrent Causation
 - 3. Conditional
 - 4. Special
 - 5. Additional
- C. Limitations
- D. Additional Coverage—Collapse
- E. Additional Coverage—"Fungus",
Wet Rot, Dry Rot, And Bacteria
- F. Additional Coverage Extensions
- G. Definitions

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.

As mentioned in the previous section, each of the Causes Of Loss forms outline Special Exclusions that apply to specific coverage forms, including the Business Income (And Extra Expense) Coverage Form. The following is an examination of the Special Exclusions found in the Causes Of Loss – Special Form, that pertain to various time element coverages that were not addressed in Section 2 of this Learning Guide.

1.a. Damage or destruction of “finished stock”

“Finished stock” is a defined term in Section F of the form. Business Income and Extra Expense coverage is excluded for any loss caused by or resulting from damage or destruction of “finished stock.” The reason for this is that “finished” goods are no longer part of the Named Insured’s “operations” because manufacturing has been completed. The policy only pays for loss due to a “suspension” of “operations.” There is an endorsement available to address this exposure.



Manufacturer’s Selling Price (Finished “Stock” Only) CP 99 30 06 95



As was discussed in Section 1, the **Building and Personal Property Coverage Form CP 00 10 10 12** values stock that has been sold but not delivered at selling price, which includes profits, less discounts and expenses the Named Insured otherwise would have had. To cover the profits in finished good that have not been sold, the insured would need to add the **Manufacturers Selling Price Endorsement (Finished “Stock” Only) CP 99 30 06 95**.

1.b. Time required to reproduce “finished stock”

Coverage is also excluded for loss due to the time it takes to reproduce “finished stock,” as this falls outside the “period of restoration” because “operations” have resumed. The “period of restoration” will continue until the Named Insured manufacturer is back at the same point in the process they were prior to the loss.

2. Radio and television antennas

Coverage is excluded for any loss due to damage to radio or television antennas and their lead-in wiring, masts, or towers. This exclusion also applies to satellite dishes.

(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.

There is an endorsement available to address this exposure.

Radio Or Television Antennas – Business Income Or Extra Expense CP 15 50 10 12



This endorsement voids the exclusion, thereby providing coverage for losses resulting from direct physical loss or damage to this type of property.

Think About It



What types of businesses might experience a loss of income due to damage to a television antenna or satellite dish? (*Hint: Consider places where people gather to watch games or events.*) Can this type of business afford a 72-hour waiting period? Could the benefit outweigh the costs for eliminating the waiting period?

3.a. Delay caused by strikers or other persons

Delay in rebuilding, repairing, or replacing property, or resuming "operations" due to interference by strikers or other persons is excluded from coverage as the occurrence of a strike may not be entirely outside of the Named Insured's control.

3.b. Suspension of license, lease, or contract

Coverage for loss due to the suspension, lapse, or cancellation of any license, lease, or contract beyond the "period of restoration" is excluded. However, if the suspension, lapse, or cancellation directly results from the "suspension" of "operations," the policy will pay for the loss of "business income" during the "period of restoration." It is important to note that the cancellation of a contract may create a lack of coverage, resulting in the loss of future earnings after the "period of restoration."

The **Extended Period of Indemnity** Optional Coverage (which will be discussed in greater detail shortly) can help address this lack of coverage.

(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.



A manufacturing plant is shut down due to damage from a Covered Cause of Loss and it will take one year to rebuild and replace the damaged property. The manufacturer must cancel contracts with retailers as the manufacturing plant will be unable to fulfill its obligations. Though the policy will continue to pay during the "period of restoration," since these were multi-year contracts, the manufacturer will continue to sustain a loss of income even after they resume "operations." The Extended Period of Indemnity option can provide the manufacturer with continued business income payments for a selected period of time until they are able to restore their client base and bring "operations" back to the same level as prior to the loss.



Leasehold Interest Coverage Form CP 00 60 06 95



The Leasehold Interest Coverage Form addresses the loss the Named Insured suffers from the loss of a favorable property lease. This form will be discussed in greater detail later in this section.

4. Extra Expense due to suspension of license, lease, or contract beyond the “period of restoration”

The policy will not pay for any Extra Expense due to the suspension, lapse, or cancellation of any license, lease, or contract after the “period of restoration” has concluded. The 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,” and therefore does not apply beyond the “period of restoration.”

(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

This is a catch-all exclusion that includes losses such as contract penalties or penalty fees for late deliveries that result from a direct damage loss.

(5) Any other consequential loss.



Consider the manufacturer from the previous example that had multi-year contracts with several retailers. If these contracts stated that the manufacturer would pay a penalty if they canceled the contract or were unable to fulfill their obligations under the contract (which is common), the manufacturer would owe significant sums in penalties when they shut down “operations” for an entire year. These penalties would not be covered by the Business Income (And Extra Expense) Coverage Form.

Check-In



Directions: Which of the following Causes Of Loss – Special Form Special Exclusions for Business Income coverage can be addressed through endorsement or another coverage option? (Select all that apply.)

- ☐ Damage or destruction of “finished stock”
- ☐ Radio or television antennas
- ☐ Delay caused by strikers or other persons
- ☐ Suspension or cancellation of license, lease, or contract
- ☐ Any other consequential loss

Business Income (And Extra Expense): Additional Limitation – Interruption of Computer Operations

Business Income (And Extra Expense) Coverage Form

A. Coverage

1. Business Income
2. Extra Expense
3. Covered Causes of Loss,
Exclusions, and Limitations

4. Additional Limitation— Interruption of Computer Operations

5. Additional Coverages
6. Coverage Extension

B. Limits of Insurance

C. Loss Conditions

D. Additional Condition: Coinsurance

E. Optional Coverages

F. Definitions

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.

Section 3: Time Element Coverages and Endorsements

Paragraph 4 of the Business Income (And Extra Expense) Coverage Form Insuring Agreement outlines the Additional Limitation for Interruption of Computer Operations. This limitation 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. The limitation only applies to electronic data, which is defined in Paragraph c.

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.

Paragraph d. has been added to indicate that the 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. This

exception provides coverage for losses caused by damage to electronic data for these specifically listed control systems.

Knowledge Check



Directions: Your client owns a hotel that is insured on a Business Income (And Extra Expense) Coverage Form. The hotel is located in a coastal area where utility services are regularly interrupted by storms. The client tells you “I don’t need to add the Utility Services – Time Element CP 15 45 09 17 endorsement to my Business Income policy because I already have a Utility Services – Direct Damage endorsement.” How might you respond to this client?

Additional Coverages, Coverage Extension, and Limits of Insurance

Learning Objectives:

- 3.5 Apply the four Additional Coverages and the one Coverage Extension for Newly Acquired Locations to explain how the Business Income (And Extra Expense) Coverage Form provides coverage in the event of a loss.
- 3.6 Identify endorsements that are relevant to specific exposures, and understand how they can modify the Additional Coverages and/or Coverage Extension in the Business Income (And Extra Expense) Coverage Form.

Business Income Additional Coverages

There are four Additional Coverages in the Business Income (And Extra Expense) Coverage Form CP 00 30:

- a. Civil Authority
- b. Alterations And New Buildings
- c. Extended Business Income
- d. Interruption Of Computer Operations

Business Income (And Extra Expense) Coverage Form

A. Coverage

1. Business Income
2. Extra Expense
3. Covered Causes of Loss,
Exclusions, and Limitations
4. Additional Limitation—
Interruption of Computer
Operations

5. Additional Coverages
6. Coverage Extension

B. Limits of Insurance

C. Loss Conditions

D. Additional Condition: Coinsurance

E. Optional Coverages

F. Definitions

a. Civil Authority

This Additional Coverage pays for:

- Actual loss of Business Income sustained and/or 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 Named Insured's policy.

There is a 72-hour waiting period for Business Income, but no waiting period for Extra Expense coverage.

This Additional Coverage provides up to four continuous weeks of coverage following the first action of civil authority that prohibits access to the described premises.



A tornado sweeps through the downtown area of a city, causing extensive damage. Many high-rise buildings with glass exteriors are located in the affected area. The civil authority is concerned about the possibility of falling glass and prohibits access to the downtown area. The Named Insured's premises did not suffer any damage but is located in the area that is shut down.

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.

Section 3: Time Element Coverages and Endorsements

The Civil Authority Additional Coverage applies because all of the following conditions are met:

- There is damage to property within a mile of the Named Insured's premises,
- the damage is caused by a Covered Cause of Loss,
- a civil authority prohibits access to the Named Insured's premises, and
- the Named Insured sustains a Business Income/and or Extra Expense loss from the shutdown.



There are endorsements available to modify the Civil Authority Additional Coverage.

Civil Authority Change(s) CP 15 32 06 07



This endorsement can be used with either of the Business Income Coverage forms, or with the Extra Expense Coverage Form. It is used to change the one-mile limitation and to extend the four-week limitation.

Business Income Changes – Beginning Of The Period Of Restoration CP 15 56 06 07



As mentioned previously, this endorsement allows the waiting period for business income to be reduced to 24 hours, or to be eliminated, which would also affect the Civil Authority Additional Coverage.

b. Alterations And New Buildings

This Additional Coverage pays for business income and extra expense losses incurred at the described premises caused by or resulting from any Covered Cause of Loss due to any of the following:

- New buildings or structures that have been completed or are under construction
- Alterations or additions to existing buildings or structures
- Machinery, equipment, supplies, or building materials located within 100 feet of the described premises that are used in the construction, alterations, or additions; or are incidental to the occupancy of new buildings.

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.

Section 3: Time Element Coverages and Endorsements



Note:

Coverage is at the Described Premises, not at Newly Acquired Locations.

This Additional Coverage establishes that the loss of income to property “under construction” will be measured from the date on which “operations” would have begun had there been no loss. This means that the beginning of the “period of restoration” is altered from the normal 72-hour waiting period.



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 Named 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.

Example Recap: Period of Restoration for Alterations and New Buildings Additional Coverage	
Projected Completion Date	July 1
Windstorm	May 1
New Completion Date	November 1
The “period of restoration” begins on July 1 and ends when the repairs are complete and the Named Insured can begin “operations.”	

c. Extended Business Income

This Additional Coverage extends Business Income and/or "Rental Value" for a period of time beyond the end of the "period of restoration." The reason for this coverage is that many businesses will not return to normal immediately upon reopening.

The policy has separate sub-sections for Business Income Other Than "Rental Value" and "Rental Value." The policy wording is very similar and "Rental Value" will not be discussed separately.

Extended Business Income Other Than "Rental Value":

- Begins on the date the property (except "finished stock") is actually repaired, rebuilt, or replaced *and* "operations" are resumed.
- Ends on the earlier of:
 - the date the Named 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
 - 60 consecutive days after the date property (except "finished stock") is actually repaired, rebuilt, or replaced and "operations" are resumed.

- 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.

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"



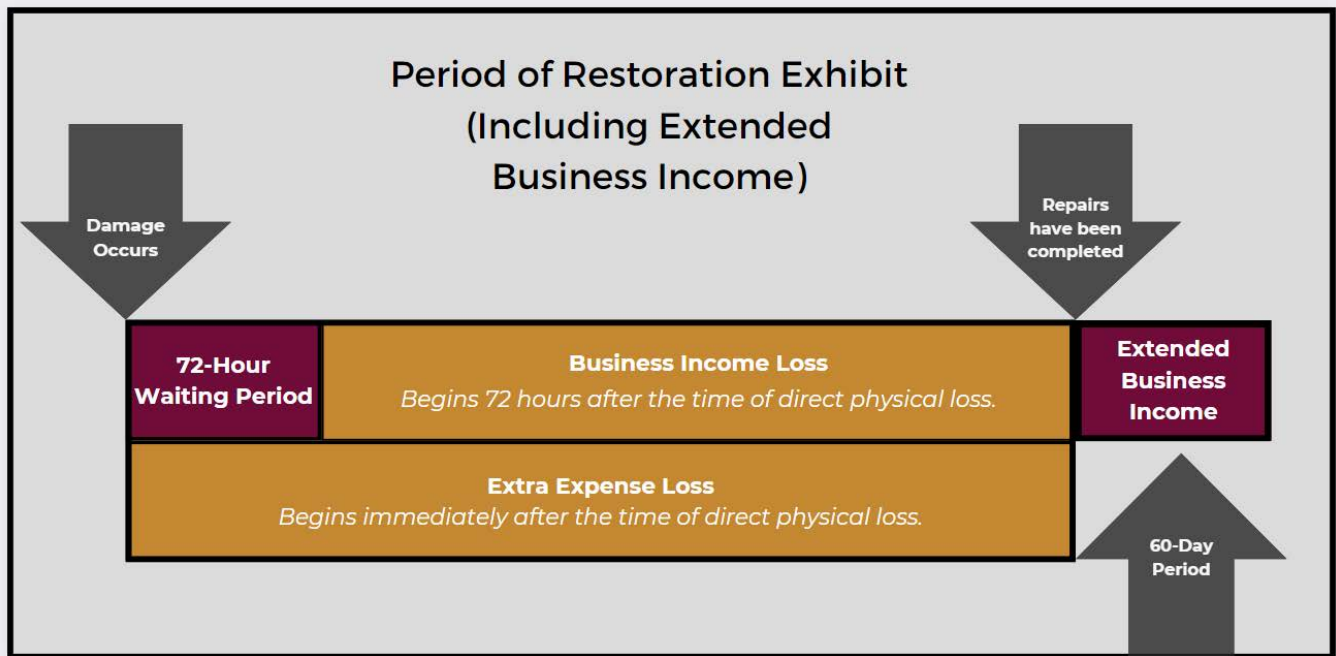
Dana's Donuts was a popular spot for breakfast and coffee before a fire destroyed the building. It took nine months to rebuild and replace damaged property. In that time, many of Dana's customers found new coffee spots. After Dana reopens, it will take time to reestablish her customer base and restore profits to pre-loss levels. Extended Business Income will provide Dana with up to 60 days of additional coverage for Business Income and Extra Expense.



Section 3: Time Element Coverages and Endorsements

Extended Business Income coverage can be expanded under the Optional Coverages on the Declarations for an additional period of time. The Extended Business Income period can be increased by 30-day increments up to a maximum of 730 days using the Extended Period Of Indemnity Optional Coverage. The entry on the Declarations should show the total number of days for this coverage.

The Extended Business Income Additional Coverage *does not increase the Limit of Insurance*.



The "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 repairs have been completed and provides coverage for 60 days (or the number of days entered on the Declarations).



Caution!

There may be a lack of coverage if the Business Income payments stop before the repairs are completed. This could occur if the time period in which repairs should have been completed is a shorter period of time than when repairs are actually completed.

d. Interruption of Computer Operations

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.

Section 3: Time Element Coverages and Endorsements

1. The Interruption of Computer Operations Additional Coverage uses the same definition for electronic data as described in the Additional Limitation – Interruption of Computer Operations.
2. There is no coverage under this Additional Coverage when the Additional Limitation – Interruption of Computer Operations does not apply, as stated in Paragraph a.4.d. of that Limitation.
3. When the Causes Of Loss – Special Form applies, coverage is provided for the following:
 - “Specified causes of loss”
 - Fire
 - Lightning
 - Explosion
 - Windstorm or Hail
 - Smoke
 - Aircraft or Vehicles
 - Riot or Civil Commotion
 - Vandalism
 - Sprinkler Leakage
 - Sinkhole Collapse
 - Volcanic Action
 - Falling Objects
 - Weight of Snow, Ice or Sleet
 - Water Damage
 - Collapse, as defined in the Special Form
 - Virus, harmful code, or similar instruction introduced into or enacted on a computer system or a network



Any other causes of loss endorsed to the policy (for example, earthquake) *do not apply* to this Additional Coverage.

This Additional Coverage carries a maximum \$2,500 annual aggregate limit unless a higher limit is shown in the Declarations. This coverage is not available after the end of the “period of restoration,” even if the limit has not been exhausted.

Business Income (And Extra Expense) Coverage Extension

The Business Income (And Extra Expense) Coverage Form Coverage Extension extends coverage to Newly Acquired Locations other than fairs or exhibitions. Coverage applies if a coinsurance percentage of 50% or more is shown in the Declarations, even if the Named Insured is not in compliance with the coinsurance provision.

There is a maximum limit of \$100,000 at each location unless a higher limit is shown in the Declarations. This amount is paid in addition to the Limit of Insurance.

This Coverage Extension is designed to give the Named Insured time to report the acquisition or arrange for other insurance, and, as such, it is only provided for a limited period of time. Coverage ends on the earliest of:

- policy expiration,
- 30 days after the acquisition or start of construction, or
- when values are reported to the insurer.

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.

An additional premium is charged as of the beginning of the exposure; this is not 30 days of free coverage. The Additional Condition – Coinsurance does not apply to this Coverage Extension.



Alert:

It is important to be aware that coverage is extended to any location that “you” acquire. This means that if property is purchased under a new business name, coverage *will not* be extended to that location.

Limits of Insurance

There is one Limit of Insurance for Business Income and Extra Expense. The insurer does not intend to pay more for a loss than the Limit of Insurance. The limits apply per occurrence, with full Limits of Insurance available for each separate occurrence.

The following coverages do not increase the Limit of Insurance:

1. Alterations And New Buildings
2. Civil Authority
3. Extra Expense
4. Extended Business Income

The following coverages are provided in addition to the Limit of Insurance:

1. Interruption Of Computer Operations Additional Coverage
2. Newly Acquired Locations Coverage Extension

When setting a Limit of Insurance, it is essential to factor in all necessary coverages. There will be a further discussion of setting Limits of Insurance later in this section.



Knowledge Check



Directions: Consider how you would advise the client in the following scenarios.

1. Your client is concerned that the Civil Authority Additional Coverage will not provide her with sufficient Business Income coverage. What endorsement(s) might you recommend to the client, and how would they modify her coverage?

2. Explain as you would to a client how a lack of coverage could occur with the Additional Coverage - Extended Business Income. What solution would you recommend to address this exposure?

Part 1: Summary

Time element coverage is designed to replace lost income and pay for extra expenses when a business's "operations" are suspended due to direct damage from a Covered Cause of Loss. Part 1 of this section focused primarily on the coverage provided by the Business Income (And Extra Expense) Coverage Form.

Business Income is the Net Income (the net profit or loss before income taxes) that would have been earned or incurred and continuing normal operating expenses incurred, including payroll.

Extra Expense refers to necessary expenses incurred during the "period of restoration" that would not have been incurred had there been no direct physical loss or damage.

The "period of restoration" is the time it should take for the business to resume normal "operations." The Business Income "period of restoration" begins 72 hours after the occurrence of the loss or damage, and the "period of restoration" for Extra Expense begins at the time of the occurrence.

Covered Causes of Loss for the Business Income (And Extra Expense) Coverage Form, as well as other time element coverage forms, will be determined by the Causes Of Loss form shown in the Declarations. All ordinary exclusions outlined in that Form will apply, as well as any Special Exclusions listed in that Causes Of Loss form. The Causes Of Loss - Special Form has five exclusions that apply specifically to the Business Income (And Extra Expense) Coverage Form, the Business Income (Without Extra Expense) Coverage Form, and the Extra Expense Coverage Form. The Business Income (And Extra Expense) Coverage Form also carries an Additional Limitation for Interruption of Computer Operations.

There are four Additional Coverages provided in the Business Income (And Extra Expense) Coverage Form:















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

The Business Income (And Extra Expense) Coverage Form also contains a Coverage Extension, which provides limited coverage for Newly Acquired Locations.



Endorsements in Part 1

A complete list of endorsements discussed in Part 1 of this Section is included below.

	Manufacturer's Selling Price (Finished Stock Only) CP 99 30 06 95
	Business Income Changes - Beginning Of The Period Of Restoration CP 15 56 06 07
	Ordinance Or Law - Increased Period Of Restoration CP 15 31 09 17
	Business Income From Dependent Properties - Limited Form CP 15 09 10 12
	Business Income From Dependent Properties - Broad Form CP 15 08 10 12
	Business Income From Dependent Properties Limited International Coverage CP 15 01 10 12
	Earthquake And Volcanic Eruption Coverage With Percentage Deductible Endorsement CP 10 40 02 19
	Flood Coverage Endorsement CP 10 65 10 12
	Utility Services - Time Element CP 15 45 09 17
	Equipment Breakdown Cause Of Loss CP 10 46 10 12
	Equipment Breakdown Protection Coverage Form EB 00 20 01 13
	Radio Or Television Antennas - Business Income Or Extra Expense CP 15 50 10 12
	Leasehold Interest Coverage Form CP 00 60 06 95
	Civil Authority Change(s) CP 15 32 06 07

Part 1: Self-Quiz

Directions: Answer the following questions. Some questions may have more than one correct answer. Select all that apply.

1. Which of the following best describes business income?
 - ☐ Net income (Net Profit or Loss before income taxes) that would have been earned or incurred; and continuing normal operating expenses incurred, including payroll
 - ☐ Net income (Net Profit after income taxes) that would have been earned or incurred; and continuing normal operating expenses incurred, including payroll
 - ☐ Net income (Net Profit or Loss before income taxes) that would have been earned or incurred; and all operating expenses incurred, excluding payroll
 - ☐ Net income (Net Profit or Loss after income taxes) that would have been earned or incurred and all continuing extra expenses, including payroll
2. Which of the following statements accurately describe when the “period of restoration” begins? (Select all that apply).
 - ☐ 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.
 - ☐ Business Income begins with the time of direct physical loss or damage caused by or resulting from a Covered Cause of Loss at the described premises.
 - ☐ Extra Expense 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.
 - ☐ 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.
3. Which of the following endorsements is best suited to a Named Insured who wants separate Business Income limits for dependent properties (all local to the Named Insured)?
 - ☐ Business Income From Dependent Properties – Limited Form
 - ☐ Business Income From Dependent Properties – Broad Form
 - ☐ Business Income From Dependent Properties Limited International Coverage
 - ☐ Business Income From Recipient Or Contributing Locations – Limited Form

Section 3: Time Element Coverages and Endorsements

4. Very Large Paper Company is insured on an unendorsed Business Income (And Extra Expense) Coverage Form. They experience a loss of business due to an inventory shortage when their paper supplier is forced to temporarily shut down “operations” following a fire. Is this business income loss covered under their policy?
- ☐ Yes, the loss is covered because it resulted from a dependent property exposure.
 - ☐ Yes, the loss is covered because it resulted from a necessary “suspension” of “operations” due to a Covered Cause of Loss.
 - ☐ No, the loss is not covered because only recipient and leader locations receive automatic coverage under the Business Income (And Extra Expense) Coverage Form.
 - ☐ No, the loss is not automatically covered because coverage for dependent property exposures must be added through endorsement.
5. Which of the following statements is accurate regarding Business Income coverage using the Causes Of Loss – Special Form as it relates to “finished stock”?
- ☐ Business income losses due to damage to “finished stock” are covered because the storage of “finished stock” is considered to be part of “operations.”
 - ☐ Business income losses due to damage to “finished stock” are covered, but only up to a limit of \$2,500.
 - ☐ Business income coverage is excluded for loss or damage due to damage or destruction of “finished stock” because storage of finished goods, by definition, is not considered part of “operations.”
 - ☐ Business income losses are excluded for damage to “finished stock,” but extra expenses necessary to replace finished stock are covered because they are necessary to restore “operations.”
6. Which of the following are possible solutions to address the exposure created by the Causes Of Loss – Special Form special exclusion 3.b. Suspension, cancellation, or lapse of license, lease, or contract?
- ☐ Maximum Period Of Indemnity Optional Coverage
 - ☐ Extended Period Of Indemnity Optional Coverage
 - ☐ Expanded Limits On Loss Payment
 - ☐ Leasehold Interest Coverage Form

Section 3: Time Element Coverages and Endorsements

7. How many days are granted under the Additional Coverage – Extended Business Income?
- ☐ Up to 30 consecutive days after the date property (except “finished stock”) is actually repaired, rebuilt, or replaced
 - ☐ Up to 30 consecutive days after the date property (except “finished stock”) is actually repaired, rebuilt, or replaced and “operations” are resumed
 - ☐ Up to 60 consecutive days after the date property (except “finished stock”) is actually repaired, rebuilt, or replaced AND operations are resumed
 - ☐ Up to 60 consecutive days after the date property (except “finished stock”) is actually repaired, rebuilt, or replaced OR “operations” are resumed
8. Which of the following endorsements can be used to modify the Business Income (And Extra Expense) Additional Coverage – Civil Authority?
- ☐ Ordinance Or Law – Increased Period Of Restoration
 - ☐ Utility Services – Time Element
 - ☐ Civil Authority Change(s)
 - ☐ Business Income Changes – Beginning Of The Period Of Restoration

Directions: Indicate whether each of the following statements is true or false.

9. 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

False

10. The Business Income (And Extra Expense) Coverage Form removes the Conditional Exclusions from the Causes Of Loss – Special Form for time element coverage.

True

False

11. The Additional Coverage – Civil Authority provides up to four continuous weeks of coverage after the “period of restoration” begins.

True

False

12. The insured must be in compliance with the Coinsurance condition in order to receive the Business Income (And Extra Expense) Coverage Form Coverage Extension for Newly Acquired Locations.

True

False

Section 3: Time Element Coverages and Endorsements

13. Under the Business Income (And Extra Expense) Additional Coverage for Alterations and New Buildings, the “period of restoration” starts on the date on which “operations” would have begun had there been no loss.

True

False

Part 2

Loss Conditions

Learning Objectives:

- 3.7 Describe how the four Loss Conditions apply to the amount of loss payment.
- 3.8 Identify and describe endorsements that can modify the Loss Conditions in the Business Income (And Extra Expense) Coverage Form.

C. Loss Conditions

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

The Loss Conditions in the Business Income (And Extra Expense) Coverage Form apply in addition to the Common Policy Conditions and Commercial Property Conditions discussed in Section 1 of this course.

The four Loss Conditions are:

1. Appraisal
2. Duties In The Event Of Loss
3. Loss Determination
4. Loss Payment

Business Income (And Extra Expense) Coverage Form

A. Coverage

1. Business Income
2. Extra Expense
3. Covered Causes of Loss, Exclusions, and Limitations
4. Additional Limitation— Interruption of Computer Operations
5. Additional Coverages
6. Coverage Extension

B. Limits of Insurance

C. Loss Conditions

D. Additional Condition: Coinsurance

E. Optional Coverages

F. Definitions

1. Appraisal

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.

Just as with the Building And Personal Property Coverage Form, appraisal can be requested under this coverage form by either the Named Insured or the insurer. Each party selects an appraiser and the appraisers then select an umpire. Each party pays the cost of their appraiser and shares the cost of the umpire as well as any related appraisal costs. A decision by any two will be binding.

The appraisal is used to determine the amount of loss, not to determine coverage; the insurance company still retains the right to deny the claim.

2. Duties In The Event Of Loss

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.

Many of the provisions of this Loss Condition are identical to the Duties In The Event Of Loss for direct damage. However, it is essential to pay special attention to paragraph 8, which states that if the Named Insured intends to continue their business, they must resume some or all of their “operations” as quickly as possible. If the Named Insured violates this condition or does not intend to resume “operations,” payment will be based on the length of time it would have taken to resume “operations” in a timely manner. This is stated in *Loss Conditions – Loss Determination, paragraph C.3.d.*



3. Loss Determination

This policy provision is key to understanding the impact of coinsurance.

a. Loss Determination for Business Income Loss

Paragraph a of this Loss Condition outlines the basis for Loss Determination of the Business Income loss.

The amount of Business Income loss is determined based on the following:

- Net Income before the direct physical loss or damage occurred;
- The likely Net Income if no loss or damage occurred (*not including potential windfalls*);
- Operating expenses, including payroll, that are *necessary* to resume “operations” with the same quality of service that existed just before the direct physical loss or damage;
- Other relevant sources of information, including the Named Insured’s financial records, accounting procedures, and other records.

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.



Note:

Settlement on Business Income will always be subject to negotiation as it can never be determined exactly what the Named Insured would have earned during the period of shutdown.

There are endorsements available to amend payroll expenses.

Payroll Limitation Or Exclusion CP 15 10 10 12



SCHEDULE	
Premises Number:	Building Number:
<div style="margin-bottom: 10px;"> <input type="checkbox"/> Payroll Expense Limitation – Number Of Days: </div> <div style="margin-bottom: 10px;"> <input type="checkbox"/> Payroll Expense Exclusion </div> <p>The following are subject to the provisions of this endorsement if so indicated in this Schedule:</p> <div style="margin-bottom: 10px;"> <input type="checkbox"/> All employees and job classifications including officers, executives, management personnel and contract employees </div> <div style="margin-bottom: 10px;"> <input type="checkbox"/> All employees and job classifications other than officers, executives, management personnel and contract employees </div> <div style="margin-bottom: 10px;"> <input type="checkbox"/> All employees and job classifications (including officers, executives, management personnel and contract employees), except: </div> <div> <input type="checkbox"/> Only the following job classifications and/or employees: </div>	

This endorsement allows the payroll component to be tailored to limit coverage to a specified time period, to specified employees or job classifications, or to exclude payroll entirely for all employees and job classifications.

Discretionary Payroll Expense CP 15 04 06 07



POLICY NUMBER:	COMMERCIAL PROPERTY CP 15 04 06 07
THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY. DISCRETIONARY PAYROLL EXPENSE	
This endorsement modifies insurance provided under the following: BUSINESS INCOME (AND EXTRA EXPENSE) COVERAGE FORM BUSINESS INCOME (WITHOUT EXTRA EXPENSE) COVERAGE FORM	
SCHEDULE	
Job Classifications Or Employees	Maximum Number Of Days For Discretionary Payroll Expense
Information required to complete this Schedule, if not shown above, will be shown in the Declarations.	
<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 and regardless of whether such expenses are necessary to resume "operations".</p> <p>Payroll expenses include:</p> <ol style="list-style-type: none"> 1. Payroll; 2. Employee benefits, if directly related to payroll; 3. FICA payments you pay; 4. Union dues you pay; and 5. Workers' compensation premiums. 	<p>B. With respect to Job Classifications and/or Employees identified in the Schedule, payroll expenses are included in the Business Income loss for the entire "period of restoration" and any extension of the "period of restoration" if an extension is provided under this policy, unless the Schedule indicates otherwise. With respect to a Job Classification(s) or Employee(s) for which the Schedule shows a maximum number of days, Business Income loss includes payroll expenses for not more than the stated number of days. The number of days need not be consecutive but must fall within the "period of restoration" or extension (if any) of the "period of restoration".</p> <p>C. This endorsement does not affect coverage of payroll expenses for job classifications and employees not identified in the Schedule.</p>

This endorsement allows the Named Insured to continue to pay their payroll expenses regardless of whether such expenses are necessary to resume "operations." This endorsement lists employees or job classifications that will be deemed necessary and states that coverage can be limited to a maximum number of days.

b. Loss Determination for Extra Expense Recovery

Paragraph b. of this Loss Condition outlines the basis for Loss Determination of the Extra Expense recovery.

The amount of Extra Expense is based on the following:

- All expenses that exceed the normal operating expenses that would have been incurred if the loss or damage had not occurred, *minus*:
 - the salvage value of property bought for temporary use;
 - extra expenses 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 coverage on a pro-rata basis.)
- Extra Expenses incurred that reduce the amount of the Business Income loss would be paid under Extra Expense coverage.

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

Paragraph c. of this Loss Condition states that Resumption Of Operations will reduce the Business Income loss and Extra Expense loss as follows:

- Business Income Loss

Business income loss will be reduced to the extent that the Named Insured can resume "operations." If they are operating, they may be generating income but still suffering a loss if "operations" are only partially resumed.
- Extra Expense Loss

Extra Expense loss will be reduced to the extent that the Named Insured can return "operations" to normal and discontinue the Extra Expenses.

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.

This Loss Condition is designed to encourage the Named Insured to resume at least some "operations" when possible, even if they are not yet able to fully return to normal "operations."

d. If “Operations” are not Resumed

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.

Paragraph d of this Loss Condition states that if “operations” are not resumed as quickly as possible, the insurer will base the loss payment on the length of time it would have taken to resume “operations” as quickly as possible. It is important to note that the Named Insured is not obligated to resume “operations” in order to collect for their actual loss sustained.



4. Loss Payment

The insurer will pay for the covered loss within 30 days of receiving the sworn proof of loss if the Named Insured has complied with the terms of the Coverage Part and the Named Insured and insurer are in agreement as to the amount of loss (with or without an appraisal).

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.



Tip:

Filing the proof of loss before it is required by the insurer may help to expedite the loss payment.

Knowledge Check



Directions: Respond to the following.

1. List the factors that are considered in Loss Determination for a Business Income loss.

2. Your client tells you that if his business closed temporarily due to a direct damage loss, he would only want to keep a select few employees on the payroll. As such, he does not want his entire payroll to be included in the Limit of Insurance. Which endorsement(s) might you recommend to this client? Explain your answer.

Additional Condition – Coinsurance

Learning Objectives:

3.9 Explain how the coinsurance formula for Business Income differs from the coinsurance formula for commercial property insurance, including:

- factors that should be used to determine the appropriate Limit of Insurance,
- the coinsurance percentage, and
- methods used to avoid a coinsurance penalty.

3.10 Apply the coinsurance formula to calculate a business income loss settlement.

The first section of this course included a discussion about coinsurance as it is applied to commercial property insurance. While a Coinsurance Condition also applies to the Business Income (And Extra Expense) Coverage Form, a different coinsurance formula is used to calculate penalties. The reason for this is that limits for Business Income coverage are determined based on projected income and operating expenses, rather than property value.

Business Income (And Extra Expense) Coverage Form

A. Coverage

1. Business Income
2. Extra Expense
3. Covered Causes of Loss, Exclusions, and Limitations
4. Additional Limitation—
Interruption of Computer Operations
5. Additional Coverages
6. Coverage Extension

B. Limits of Insurance

C. Loss Conditions

D. Additional Condition: Coinsurance

E. Optional Coverages

F. Definitions

Coinsurance Option

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.

If a coinsurance percentage is shown in the Declarations, it applies to Business Income. The coinsurance options available are:

- 50%
- 60%
- 70%
- 80%
- 90%
- 100%
- 125%
- No coinsurance (This option is not available for blanket insurance.)

Coinsurance Formula Amount Requirement

In the Business Income coinsurance formula, the amount required is the Net Income plus all operating expenses (with some allowable deductions) times the coinsurance percentage. This amount applies to the 12-month period following the inception of the policy, or the last previous anniversary date of the policy, *whichever is later*. This is advantageous to the Named 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 in net income and/or operating expenses becomes apparent.

Determining Operating Expenses

As stated above, certain operating expenses may be deducted from the total operating expenses. Two endorsements can be used to further reduce these expenses.

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).

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).

Payroll Limitation Or Exclusion CP 15 10 10 12



As mentioned previously, this endorsement can be used to exclude all or some payroll expense from coverage and from coinsurance provisions.

Power, Heat And Refrigeration Deduction CP 15 11 07 88



This endorsement allows the cost of power, heat, and refrigeration consumed in production operations and which does not continue under contract to be deducted from Business Income. It applies to manufacturing and mining risks only.

The Coinsurance Formula

The coinsurance formula for Business Income uses the Did/Should x Loss formula, but the "Should" components differ from the coinsurance formula used for property insurance. The Business Income Coinsurance formula is as follows:

Amount Carried (Did) = Limit of Insurance

Amount Required (Should) = Net Income + All* Operating Expenses for 12 months in the future, multiplied by the coinsurance percentage.

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.

*All means continuing and non-continuing operating expenses, except those that the Coverage Form allows the Named Insured to deduct from the calculation.

$$\begin{array}{c}
 \text{LIMIT OF} \\
 \text{INSURANCE} \\
 \text{(Did)} \\
 \hline
 \text{12 MONTHS OF} \\
 \text{NET INCOME AND} \\
 \text{OPERATING EXPENSES} \\
 \text{X COINSURANCE \%} \\
 \text{(Should)}
 \end{array}
 \times \text{LOSS} = \text{Recovery} \\
 \text{(up to the} \\
 \text{Limit of} \\
 \text{Insurance)}$$

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.

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.

Determining the Appropriate Limit of Insurance

It is not uncommon for business owners to be overly optimistic about the amount of time it will take to resume “operations” following a direct damage loss. It is important to consider how long the “period of restoration” might last in a worst-case scenario.

The following factors should be taken into consideration when determining the appropriate Limit of Insurance:

- Expected “period of restoration”
 - Climate considerations (ex: in cold climates construction cannot begin in the middle of the winter)
 - Type of construction
 - Delays due to ordinances or laws
 - Time needed to find a new permanent location
 - Availability of labor and materials
 - Time needed to replace certain equipment
- Business income loss during the “period of restoration,” taking into account:
 - Peak periods, etc., given that a closure during a peak season will lead to a greater loss of business income. For example, an ice cream shop on a beach boardwalk would likely experience a greater business income loss from a summer closure than a winter closure.
 - Expected growth. Remember, income and operating expenses are calculated for the 12 months following the policy inception/anniversary date.
- Period of time to restore “operations” to the level of income that would have existed had no loss occurred, i.e., consideration of Extended Business Income and/or Extended Period Of Indemnity



Section 3: Time Element Coverages and Endorsements

- Any normal continuing operating expenses that are specifically excluded or limited; for example, payroll
- Add in an estimated amount for Extra Expenses they may incur.

The Business Income worksheet will help to establish an annual exposure base but will not account for all of the factors listed above. To establish an adequate Limit of Insurance, it is important for insurance professionals to have conversations with clients to estimate how long the “period of restoration” could be and the extent of potential Business Income and Extra Expense losses during that time.

Selecting the Coinsurance Percentage



Important!

The selection of the coinsurance percentage is separate and distinct from the application of the Coinsurance clause. When advising insureds, it is important to remember that if the coinsurance amount that is selected is too low, the insured can face a penalty at the time of a loss. If it is too high, they will overpay unnecessarily.

Step 1: How much insurance is needed?

Select the amount of money needed to pay for the loss. This will be determined by discussing the factors on the previous page with the insured. This will become the Limit of Insurance (amount carried).

Step 2: What is the basis for coinsurance?

Determine the expected annual business income exposure. This is the sum of expected Net Income plus operating expenses for a 12-month period.

Step 3: Divide Step 1 by Step 2.

Divide the result of Step 1 above by the result of Step 2 above. This will be a reasonably accurate Coinsurance choice.

Step 4: Round down to the next available Coinsurance option.

If the answer in Step 3 is not exactly one of the available percentage choices, round down to the next choice available.

Section 3: Time Element Coverages and Endorsements



You have a client who anticipates that their estimated annual business income exposure (sum of net income and operating expenses) for the upcoming 12 months will be \$800,000. In the event they have a “suspension” of “operations,” the longest amount of time estimated for re-opening is nine months. Assume this is not a seasonal business, and the insured believes \$600,000 is an adequate Limit of Insurance.

To determine the Limit of Insurance, you would use the following chart:

Example: Determining Limit of Insurance	
Step 1: Expected annual business income	\$800,000
Step 2: Estimated length of suspension	9 months
Step 2: Maximum possible loss for the time “operations” are suspended (Limit of Insurance)	$\$800,000 \times (9/12) = \$600,000$ max. loss
Step 3: Limit and coinsurance percentage	$\$600,000 / \$800,000 = .75$ = 75%
Step 4: Round down to the next available coinsurance option	70% coinsurance
Add Extra Expense and Extended Period of Indemnity dollars	Amount to be determined after discussion with the insured

Methods to Avoid Potential Coinsurance Penalties

One method of avoiding coinsurance penalties is to activate one of the Optional Coverages that will remove or suspend the Coinsurance Condition. These Optional Coverages will be discussed in greater detail shortly, and are as follows:

- Maximum Period Of Indemnity
- Monthly Limit Of Indemnity
- Business Income Agreed Value

There is also an endorsement available to modify coverage based on reported values.

Business Income Premium Adjustment CP 15 20 06 95



Under this endorsement, the initial premium paid by the Named 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 Named Insured. The Coinsurance Condition remains in full force and applies to the Limit of Insurance in the usual manner. However, because the premium payment is based on actual exposures, the limit can be set high enough that the Named Insured is unlikely to ever face a coinsurance penalty. This endorsement requires completion and submission of the **Business Income Report/ Worksheet CP 15 15 10 12**.

Knowledge Check



Directions: Read the scenarios and answer the questions.

1. Dana anticipates that the sum of their net income and operating expenses over the next 12 months will be \$1,000,000. They estimate that in the event of a total loss, it would take six months to rebuild and reopen their business. Assuming that this information is accurate, and this is not a seasonal business, which coinsurance percentage would be most appropriate for Dana?

2. Dana's agent, unsure of how to calculate coinsurance, incorrectly advises Dana to select 100% for their coinsurance percentage. Dana has a \$10,000 Business Income loss. Assuming that Dana carries a \$500,000 Limit of Insurance and that all of the information from question 1 above remains the same, how much will Dana's policy pay?

3.11 Apply the four Optional Coverages in the Business Income (And Extra Expense) Coverage Form to determine how claims are settled.

1. Maximum Period Of Indemnity

The Maximum Period Of Indemnity allows the Named Insured to limit coverage to 120 days following the beginning of any “period of restoration.” This Optional Coverage only changes how long the policy will pay. Coinsurance does not apply when this Optional Coverage is selected.

Maximum Period Of Indemnity coverage is activated by marking “X” in the appropriate box on the Declarations.

Under Maximum Period Of Indemnity, the maximum recovery for Business Income and Extra Expense losses is the lesser of:

- Amount of Business Income and Extra Expense loss during the first 120 days following the beginning of the “period of restoration;” or
- Limit of Insurance

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.



Gino’s Restaurant is insured on the Business Income (And Extra Expense) Coverage Form with a \$200,000 Limit of Insurance and the Maximum Period Of Indemnity Optional Coverage. The restaurant suffers damage from a tornado and must close for repairs. During the first 120 days following the beginning of the “period of restoration,” Gino experiences \$90,000 in Business Income losses and \$35,000 in Extra Expense losses. The policy pays \$125,000.



Unfortunately, Gino’s Restaurant is still under construction after the 120-day Maximum Period Of Indemnity expires, and he suffers \$25,000 more in Business Income Losses, and \$15,000 more in Extra Expenses before the restaurant can resume normal “operations.” Because these losses occurred after the Maximum Period Of Indemnity, the policy did not pay for them. The following table summarizes how Gino’s policy paid for his Business Income and Extra Expense losses.

Example: Maximum Period Of Indemnity			
Gino's Limit of Insurance: \$200,000			
Period of Restoration	Business Income Loss	Extra Expense Loss	Amount Paid
Days 1-120	\$90,000	\$35,000	\$125,000
Days 120+	\$25,000	\$15,000	\$0

2. Monthly Limit Of Indemnity

The Monthly Limit Of Indemnity Optional Coverage allows the Named Insured to limit the amount that can be paid for Business Income losses in any one 30-day period to 1/3, 1/4, or 1/6 of the total Limit of Insurance. It should be noted that monthly refers to consecutive 30-day periods, and not necessarily calendar months. Coinsurance does not apply when this Optional Coverage is selected.

Monthly Limit Of Indemnity coverage is activated by entering a fraction on the Declarations. The maximum recovery for *Business Income* in each period of 30 consecutive days after the beginning of each "period of restoration" is shown in the following formula:

2. Monthly Limit Of Indemnity

- The Additional Condition, Coinsurance, does not apply to this Coverage Form at the described premises to which this Optional Coverage applies.
- 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:
 - The Limit of Insurance, multiplied by
 - The fraction shown in the Declarations for this Optional Coverage.

$$\begin{array}{l}
 \text{Limit of Insurance} \\
 \times \text{Fraction Shown in Declarations} \\
 \hline
 = \text{Most that is Paid in Each Period}
 \end{array}$$

Reminder: This limitation applies only to Business Income loss and does not apply to any Extra Expense loss.

The 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 same period of time. The limitation only limits how much can be paid in any one 30-day period—it does not limit the length of time during which the policy will pay. As such, the policy will continue to pay for the entire "period of restoration" or until the Limit of Insurance is exhausted.

Section 3: Time Element Coverages and Endorsements



A Named 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, or \$30,000. The “period of restoration” for this loss is three months and the claim is submitted and paid in the following way:

Example: Monthly Limit Of Indemnity		
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
Total Paid		\$80,000
* No claim was submitted for Extra Expense.		

Section 3: Time Element Coverages and Endorsements



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 $\$120,000 \times 1/4 = \$30,000$. The claim is submitted and paid in the following way:

Time Period	Extra Expense Loss	Business Income Loss	Amount Submitted	Amount 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**
Total	\$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 on this example:

The 30-day period where the limit was insufficient 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, i.e., $\$120,000 \times 1/3 = \$40,000$.

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.”

3. Business Income Agreed Value

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.

The Business Income Agreed Value Optional Coverage provides another avenue for the Named Insured to opt out of coinsurance, though it should be noted that Business Income Agreed Value does not remove coinsurance but rather *suspends* it.



The Business Income Agreed Value option requires completion of the **Business Income Report/Worksheet CP 15 15 10 12**. Many carriers have their own worksheet or will accept an equivalent form. Business Income Agreed Value Optional Coverage also requires activation on the Declarations. The Named Insured must indicate that Business Income Agreed Value Optional Coverage applies, as well as show an Agreed Value dollar amount.

Business Income Agreed Value Optional Coverage suspends coinsurance for 12 months after the effective date of the Optional Coverage unless the Named Insured requests a change in the Limit of Insurance.



Note:

A new worksheet is needed if the Limit of Insurance is changed.

Premium Impact

OF THE OPTIONS TO COINSURANCE



Assume the following facts:

- Building coinsurance rate is \$0.50
- Needed Limit of Insurance is \$500,000
- 50% Coinsurance is the proper choice
- Business is a non-manufacturing company

Coinsurance Option

$$\begin{array}{r}
 .50 \\
 \times \underline{.76 \text{ (rate modifier)}} \\
 .38 \\
 \times \underline{500,000} \\
 \$ \quad \mathbf{1,900 \text{ annual premium}}
 \end{array}$$

Maximum Period Of Indemnity Option:

$$\begin{array}{r}
 .50 \\
 \times \underline{1.15 \text{ (rate modifier)}} \\
 .575 \\
 \times \underline{500,000} \\
 \$ \quad \mathbf{2,875 \text{ annual premium}}
 \end{array}$$

Monthly Limit Of Indemnity Option

$$\begin{array}{r}
 .50 \\
 \times \underline{.96 \text{ (rate modifier)}} \\
 .48 \\
 \times \underline{500,000} \\
 \$ \quad \mathbf{2,400 \text{ annual premium}}
 \end{array}$$

Business Income Agreed Value Option

$$\begin{array}{r}
 .50 \\
 \times \underline{.76 \text{ (rate modifier*)}} \\
 .38 \\
 \times \underline{1.10 \text{ (BIAV modifier)}} \\
 .418 \\
 \times \underline{500,000} \\
 \$ \quad \mathbf{2,090 \text{ annual premium}}
 \end{array}$$

*Still using applicable Coinsurance modifier



If the goal were to eliminate the possibility of a coinsurance penalty at the least possible cost with the best possible coverage terms, which option would you recommend?

Check-In



Directions: The Named Insured selects the Maximum Period Of Indemnity Optional Coverage with a limit of \$100,000. Which of the following statements is accurate?

- ☐ The policy will pay up to the Limit of Insurance for loss sustained and extra expenses during the 120 days following the beginning of the “period of restoration.”
- ☐ The policy will pay up to the limit of \$100,000 for loss sustained and extra expenses beginning at the date of loss.
- ☐ The policy will pay a maximum of 1/3 the Limit of Insurance for any 30-day period.
- ☐ Business Income Coverage can be extended for up to 730 days after normal “operations” have resumed.

4. Extended Period Of Indemnity

The Extended Period Of Indemnity Optional Coverage increases the time period for which the Additional Coverage – Extended Business Income will apply. The *total* number of days must be indicated on the Declarations; note that this entry will replace the “60 days” shown in the policy paragraph A.5.c.

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.

Activating Extended Period Of Indemnity does not increase the amount of insurance available. As such, it is important that the Limit of Insurance reflects the additional time.

The following table shows how the number of days selected impacts the rate modifier used to calculate the policy premium.

Section 3: Time Element Coverages and Endorsements

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

Overview of Optional Coverages

The following table provides an overview of the Optional Coverages available in the Business Income Coverage Forms CP 00 30 and CP 00 32.

Overview of Business Income 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 Coinsurance does not apply.	Limits payment in any 30-day period to 1/3, 1/4, or 1/6 of the Limit of Insurance, as shown in the Declarations plus any extra expenses incurred Coinsurance does not apply.	Suspends Coinsurance Business Income Report/Worksheet CP 15 15 is required.	Used to extend the Business Income time period beyond the 60 days after “operations” have resumed



Knowledge Check



Directions: Read the scenario and answer the question that follows.

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. In the first 30 days, the Named Insured sustains a Business Income loss of \$80,000.

How much will the policy pay for that 30-day period (assuming the Named Insured does not file a claim for Extra Expense)?

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

Learning Objective:

3.12 Describe how extra expenses are paid to reduce loss under the Business Income (Without Extra Expense) Coverage Form compared to the Business Income (And Extra Expense) Coverage Form.

The 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 differs from the CP 00 30 10 12 in that it *does not* provide Extra Expense Coverage in the Coverage Insuring Agreement; instead, it provides an Additional Coverage for Expenses To Reduce Loss.

Additional Coverages

a. Expenses To Reduce Loss

Under the Business Income (Without Extra Expense) Coverage Form, extra expenses are paid only to the extent that they are necessary to avoid any further Business Income loss.



Trinity's Trophies sells custom trophies, plaques, and other engraved items. Trinity uses a piece of highly specialized engraving equipment that is manufactured in Italy. After the machine is damaged by sprinkler leakage, it will take six weeks to get a new one. Trinity can rent an engraving machine for six weeks at a cost of \$30,000.

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.

If Trinity had Business Income (And Extra Expense) coverage, the policy would pay the extra cost of rental.

Under the Business Income (Without Extra Expense) form, Trinity's policy will only pay for the rental if that cost would be less than Trinity's expected Business Income Losses for six weeks.

Other Additional Coverages

The form also differs in that there is no reference to Extra Expense under Additional Coverages – Civil Authority or under Loss Conditions – Loss Determination.

Check-In



Directions: Which of the following statements accurately describes how extra expenses are paid under the Business Income (Without Extra Expense) Form?

- ☐ Extra Expense coverage can be added through endorsement only.
- ☐ Necessary expenses are paid up to a limit of \$2,500.
- ☐ Necessary expenses are paid only to the extent that they reduce business income losses.
- ☐ All necessary expenses are the sole responsibility of the insured.

Extra Expense Coverage Form CP 00 50 10 12

Learning Objectives:

3.13 Given a scenario, determine the amount paid for Extra Expense under the Extra Expense Coverage Form.

3.14 Identify and describe endorsements that can modify the Extra Expense Coverage Form.

The purpose of the Extra Expense Coverage Form is to provide loss payments to businesses that cannot, due to their nature, afford to shut down for any length of time.

These are typically service-oriented businesses. Examples include newspapers, hospitals, accounting offices, law firms, or insurance agencies. For these types of businesses, the CP 00 50 10 12 may be a good choice, as the ongoing nature of the business would likely prevent a Business Income loss.



Coverage—Insuring Agreement

The Extra Expense Coverage Form pays for the exact same Extra Expenses as in Business Income (And Extra Expense) Coverage Form CP 00 30 10 12, meaning that it pays for *actual and necessary* Extra Expenses sustained.

The amount available to pay losses is based on the “period of restoration.” The length of the “period of restoration” determines which recovery percentage applies. The amount paid will be based on the actual loss sustained by the Named Insured, up to the amount available based on the “period of restoration.”

Part D of the Extra Expense Coverage Form provides the definition of “period of restoration,” which differs from the definition given in the Business Income (And Extra Expense) Coverage Form as no Business Income coverage is provided.

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:

D. Definitions

1. "Operations" means your business activities occurring at the described premises.
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".

3. "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.
4. "Suspension" means the slowdown or cessation of your business activities.

Limits on Loss Payment

This Loss Condition has been selected for discussion in this course because it describes how the available limit is determined by the “period of restoration,” which differs from how the Limit of insurance is applied in the Business Income (And Extra Expense) Coverage form.

The maximum recovery for Extra Expense depends on the percentage option selected and the length of the “period of restoration,” broken down into the following increments:

- 30 days or less, the policy will not pay more than the first percentage
- 60 days or less, but more than 30 days, the policy will not pay more than the second percentage
- More than 60 days, the policy will pay up to the Limit of Insurance

ISO offers three percentage options with respect to monthly benefit limitations:

- **100%-100%-100%:** The Named Insured’s full limit of extra expense coverage will be available to them. (Note that this is a significantly more expensive option.)
- **40%-80%-100%:** If the “period of restoration” is 30 days or less, up to 40% of the limit is available. If the “period of restoration” is between 31 and 60 days, up to 80% of the limit is available. If the “period of restoration” is over 60 days, up to the full limit is available.
- **35%-70%-100%:** If the “period of restoration” is 30 days or less, up to 35% of the limit is available. If the “period of restoration” is between 31 and 60 days, up to 70% of the limit is available. If the “period of restoration” is over 60 days, up to the full limit is available.



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.

The following examples show how these percentages are applied.



Application of Limits CP 00 50 10 12

The following scenarios are based on three different Named Insureds who sustain an extra expense loss under CP 00 50 10 12.

Limit of Insurance: \$100,000

Percentage shown on the Declarations: 40%-80%-100%

Scenario 1:

A large loss occurs and it takes the business 115 days (almost four months) to find a new permanent location to resume "operations." \$120,000 of covered extra expenses are sustained.

Since the "period of restoration" is more than 60 days, the third percentage shown on the Declarations applies.

Amount available for recovery is \$100,000 (\$100,000 X 100%)

Amount of recovery is \$100,000. The remaining \$20,000 of loss is not covered.

Scenario 2:

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.

Since the "period of restoration" is 30 days or less, the first percentage shown on the Declarations applies.

Amount available for recovery is \$40,000 (\$100,000 X 40%)

Amount of recovery is \$40,000. The remaining \$10,000 of loss is not covered.

Scenario 3:

It takes the business 45 days to make repairs and resume "operations."

\$90,000 of covered extra expenses are sustained. It does not matter when those expenses occurred during the 45 days.

Since the "period of restoration" is more than 30 days but 60 days or less, the second percentage shown on the Declarations applies.

Amount available for recovery is \$80,000 (\$100,000 X 80%)

Amount of recovery is \$80,000. The remaining \$10,000 of loss is not covered.



Reminder!

In the Extra Expense Coverage Form CP 00 50 10 12, it is the “period of restoration” that determines how much of the limit is available to pay a claim.

There are endorsements available to modify Extra Expense coverage.

Expanded Limits On Loss Payment CP 15 07 11 85



POLICY NUMBER:

COMMERCIAL PROPERTY

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

EXPANDED LIMITS ON LOSS PAYMENT

This endorsement modifies insurance provided under the following:

EXTRA EXPENSE COVERAGE FORM

The LIMITS ON LOSS PAYMENT Loss Condition is replaced by the following:

LIMITS ON LOSS PAYMENT

- 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%.

This endorsement allows for the customization of recovery.

Extra Expense From Dependent Properties CP 15 34 10 12



This endorsement is used for Named Insureds that may have an exposure for dependent properties. It provides almost identical coverage terms and conditions as the Business Income From Dependent Properties endorsement.

Extra Expense From Dependent Properties Limited International Coverage CP 15 02 10 12



This endorsement provides nearly identical coverage terms and Conditions as the Business Income From Dependent Properties Limited International Coverage endorsement, but related to Extra Expense.

Premium Impact

OF USING THE EXTRA EXPENSE COVERAGE FORM



Assumptions

- Limit is \$500,000
- Recovery Percentage is 40%-80%-100%
- Building Rate is .50

Extra Expense Coverage Form

.50
x .170 (rate modifier*)
.85
x 500,000
\$ 4,250 annual premium

*For 40%-80%-100% option

Business Income (And Extra Expense) Coverage Form

.50
x .76 (rate modifier*)
.38
x 500,000
\$ 1,900 annual premium

*For 50% Coinsurance

That is a significant premium difference, but what about the quality of coverage?

Extra Expense Coverage Form

- Limit available depends on "period of restoration"
- More expensive
- One option:
 - Percentage of recovery available

Business Income (And Extra Expense) Coverage Form

- Full Limit available from day one of loss
- Less expensive
- Available options:
 - Maximum Period of Indemnity
 - Monthly Limit of Indemnity
 - Business Income Agreed Value

Premium impact of Maximum Period of Indemnity (most expensive BI & EE option)

.50
x .115 (rate modifier)
.575
x 500,000
\$ 2,875 annual premium



Which of these
coverage options
would you
recommend to a
client?

▶▶ Knowledge Check



Directions: Read the scenario and answer the question that follows.

The Named Insured has purchased an Extra Expense Coverage Form with a limit of \$100,000 and a percentage basis of 40%-80%-100% is indicated on the Declarations. A loss occurs, and the “period of restoration” is 50 days. Expenses are \$70,000 the first month and \$20,00 the second month.

How much will the Named Insured be paid for recovery?

Leasehold Interest Coverage Form CP 00 60 06 95

Learning Objective:

3.15 Describe the four Covered Leasehold Interests outlined in the Leasehold Interest Coverage Form and explain how coverage is triggered.

The Leasehold Interest Coverage form is designed to provide coverage when a Named Insured tenant has a favorable lease that is canceled by the landlord as a result of direct physical loss from a Covered Cause Of Loss at the premises described in the Declarations. This form can also help the insured who has invested money to get a favorable lease or made improvements to the rented space.

Coverage—Insuring Agreement

This policy pays for loss of Covered Leasehold Interest sustained due to cancellation of the Named Insured’s lease. The cancellation must result from direct physical loss of or damage to property at the described premises, though there is no requirement that the damaged property be property of the Named Insured, or that it be covered property. However, the loss must be caused by or resulting from any Covered Cause of Loss for coverage to apply.

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.

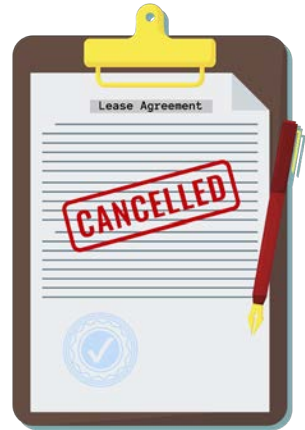
1. Covered Leasehold Interest

Covered Leasehold Interest means the following for which an amount of “net leasehold interest” at inception is shown in the Leasehold Interest Coverage Schedule:

Section 3: Time Element Coverages and Endorsements

Coverage only applies if an amount is shown in the Leasehold Interest Coverage Schedule for one or more of the Covered Leasehold Interests:

- a. Tenants' Lease Interest
- b. Bonus Payments
- c. Improvements and Betterments
- d. Prepaid Rent



POLICY NUMBER:

COMMERCIAL PROPERTY
CP DS 07 10 00

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

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			\$ _____	\$ _____

a. Tenants' Lease Interest

Tenants' Lease Interest refers to the *additional rent* the Named Insured must pay to lease a comparable premises (meaning the difference between the rent paid at the original premises and the rental value of the new leased premises).

b. Bonus Payments

Bonus Payments refer to the *unamortized* value of any bonus payments to secure the premises that are *non-refundable*.

c. Improvements and Betterments

Improvements and Betterments refer to the *unamortized portion of the value* of the tenant's improvements and betterments that the Named Insured has made at their own expense.

d. Prepaid Rent

Prepaid Rent refers to the *unamortized value* of any prepaid rent that is *non-refundable*.

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.

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 (though perhaps not advisable) to have different Causes of Loss apply to direct damage.

Recap: Requirements to Trigger Leasehold Interest

In order to trigger leasehold interest coverage, the following must occur:

- Actual loss of covered leasehold interest
 - Tenants' Lease Interest
 - Bonus Payments
 - Improvements and Betterments
 - Prepaid Rent
- Cancellation of the lease by the landlord as a result of direct physical loss to the property at the described premises
- Loss must be from a Covered Cause of Loss



Knowledge Check



Directions: Given the following scenario, indicate whether leasehold interest coverage would or would not be triggered and why.

Leslie's Cupcake Shop pre-paid rent to secure a high-traffic spot in a strip mall. The owner of the strip mall has gone bankrupt and must cancel everyone's lease agreements and shut down the space. Will Leslie's Leasehold Interest coverage apply? Explain your answer.

Part 2: Summary

Part 2 of this section continued with an examination of the coverage provided by the Business Income (And Extra Expense) Coverage Form. The form outlines four Loss Conditions that detail the process for determining and disbursing loss payments:

- Appraisal
- Duties In The Event Of Loss
- Loss Determination
- Loss Payment

Similar to property insurance, the Business Income (And Extra Expense) Coverage Form contains an Additional Condition for Coinsurance. Named Insureds who use the Coinsurance option will face a penalty if the Limit of Insurance carried is not equal to a percentage of the Net Income plus all operating expenses (minus allowable deductions) for the 12 months following the policy inception or anniversary.

There are three Optional Coverages that can remove or suspend the Coinsurance requirement:

1. Maximum Period Of Indemnity

Pays up to the Limit of Insurance for a maximum of 120 days following the occurrence of direct loss or damage.

2. Monthly Limit Of Indemnity

Pays no more than 1/3, 1/4, or 1/6 of the Limit of Insurance for business income losses in any 30-day period, along with Extra Expense.

3. Business Income Agreed Value

Suspends the Coinsurance condition for 12 months. The insured must complete the Business Income/Report Worksheet CP 15 15 10 12.

There is also a fourth Optional Coverage which can increase the time period for which the Additional Coverage – Extended Business Income will apply.

4. Extended Period Of Indemnity








Lengthens Extended Business Income coverage for up to 730 days

There are other time element options in addition to the Business Income (And Extra Expense) Coverage Form CP 00 30. The Business Income (Without Extra Expense) Coverage Form CP 00 32 10 12 provides the same Business Income Coverage as the CP 00 30, but extra expenses are paid only to the extent that they are necessary to avoid any further Business Income loss.

Named Insureds with businesses that cannot be suspended for any length of time may opt for the Extra Expense Coverage Form CP 00 50, which provides Extra Expense Coverage without the Business Income component.

Named Insureds who rent their business space may also benefit from the Leasehold Interest Coverage Form, which is designed to provide coverage when an insured tenant has a favorable lease that is canceled by the landlord as a result of direct physical loss from a Covered Cause of Loss at the premises described in the Declarations.

Endorsements in Part 2

	Payroll Limitation Or Exclusion CP 15 10 10 12
	Discretionary Payroll Expense CP 15 04 06 07
	Power, Heat And Refrigeration Deduction CP 15 11 07 88
	Business Income Premium Adjustment CP 15 20 06 95 (Requires completion of Business Income Report/ Worksheet CP 15 15 10 12)
	Expanded Limits On Loss Payment CP 15 07 11 85
	Extra Expense From Dependent Properties CP 15 34 10 12
	Extra Expense From Dependent Properties Limited International Coverage CP 15 02 10 12

Part 2: Self-Quiz

Directions: Answer the following questions. Some questions may have more than one correct answer. Select all that apply.

1. Which of the following are included in the Loss Determination for Business Income?
 - ☐ Net income after the direct physical loss or damage occurred
 - ☐ Net income before the direct physical loss or damage occurred
 - ☐ All operating expenses that result from direct physical loss, whether or not they are necessary to resume “operations”
 - ☐ 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. Which endorsement to the Business Income (And Extra Expense) form allows the insured to continue to pay employee salaries, regardless of whether such expenses are necessary to resume “operations?”
 - ☐ Payroll Limitation Or Exclusion
 - ☐ Discretionary Payroll Expense
 - ☐ Expanded Limits On Loss Payment
 - ☐ Business Income Expanded Payroll
3. Which of the following shows the amount required (“Should”) portion of the coinsurance formula for Business Income?
 - ☐ Limit of Insurance
 - ☐ Limit of Insurance multiplied by the coinsurance percentage
 - ☐ (Net Income + all operating expenses for the previous 12 months) multiplied by the coinsurance percentage
 - ☐ (Net Income + all operating expenses for 12 months in the future) multiplied by the coinsurance percentage
4. Selecting the coinsurance percentage is a four-step process. Which one of these steps is the first step of the process?
 - ☐ Divide the amount of money needed to pay for a loss by the Net Income, plus all operating expenses, for a 12-month period.
 - ☐ Determine the basis of measurement for coinsurance.
 - ☐ Select amount of money needed to pay for a loss.
 - ☐ Round down to the next available coinsurance option.

Section 3: Time Element Coverages and Endorsements

5. 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 regarding how the policy will pay.
- ☐ Pays up to the Limit of Insurance for loss sustained and expenses during the 120 days following the beginning of the “period of restoration”
 - ☐ Pays up to the limit of \$100,000 for loss sustained and expenses beginning at the date of loss
 - ☐ Pays up to the Limit of Insurance for loss sustained and expenses for up to 730 days following the beginning of the “period of restoration,” depending on the number of days listed in the Schedule
 - ☐ Pays no more than a selected fraction of the Limit of Insurance during any 30-day period for loss sustained and expenses
6. Which of the following statements are accurate regarding Business Income Agreed Value Optional Coverage?
- ☐ The Business Income Agreed Value option requires completion of the Business Income Report/Worksheet.
 - ☐ The Business Income Agreed Value option removes the Coinsurance Condition as long as it is in effect.
 - ☐ The Business Income Agreed Value option suspends the Coinsurance Condition for 12 months.
 - ☐ The Business Income Agreed Value option is generally more expensive than the Maximum Limit Of Indemnity or Monthly Limit of Indemnity options.
7. Trina’s business is insured on a Business Income (Without Extra Expense) Coverage Form. A highly specialized piece of equipment that is essential to Trina’s business is destroyed by a Covered Cause of Loss. It will take three months to replace the equipment unless Trina pays a \$35,000 fee for expedited manufacturing and shipping. Which of the following statements accurately explains whether Trina’s policy will pay for this extra expense?
- ☐ Trina’s policy will pay the expediting fee because the equipment is essential to her resuming normal business “operations.”
 - ☐ Trina’s policy will pay the expediting fee because maintaining the equipment is considered a normal continuing expense.
 - ☐ Trina’s policy will only pay the expediting fee if it will be less than the loss of business income Trina would experience from three months without the equipment.
 - ☐ Trina’s policy will not pay the expediting fee under any circumstances because it is considered an Extra Expense.

Section 3: Time Element Coverages and Endorsements

8. The Named Insured has purchased an Extra Expense Coverage Form with a limit of \$100,000 indicated on the Declarations and a percentage basis of 35%-70%-100%. A loss occurs, and the "period of restoration" is 29 days, with expenses totaling \$50,000. How much will the policy pay?
- ☐ \$25,000
 - ☐ \$30,000
 - ☐ \$35,000
 - ☐ \$50,000
9. Which of the following endorsements allows the insured to customize the percentage limits used to determine recovery on the Extra Expense Coverage Form?
- ☐ Extra Expense Premium Adjustment
 - ☐ Expanded Limits On Loss Payment
 - ☐ Extra Expense From Dependent Properties
 - ☐ Time Element Recovery Limits
10. Which of the four covered leasehold interests refers to the additional rent the insured must pay to lease a comparable premises?
- ☐ Tenant's Lease Interest
 - ☐ Bonus Payments
 - ☐ Improvements and Betterments
 - ☐ Prepaid Rent
11. 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 canceled and the Named Insured has to rent another location. Indicate which of the following statements are true in regard to the Leasehold Coverage Form.
- ☐ On the canceled lease, the Named Insured will be reimbursed the entire Bonus Payment that was paid to secure the leased premises.
 - ☐ The Named Insured's rent at a new location is higher. The difference between the old rent and new rent is covered.
 - ☐ On the canceled lease, the unamortized portion of the tenant's improvements and betterments will be covered.
 - ☐ Pre-paid rent at the damaged location will not be covered.

Set Yourself Up for Success!

Visit the “Resources” Webpage at RiskEducation.org/CPresources

For valuable reinforcement, be sure to visit the “Resources” webpage. This webpage contains a variety of materials that will help you absorb the course material *and* set you up for success on the Final Exam. You’ll find:

Study Guide

Download a copy of the Study Guide. It contains all the Check-In questions, Knowledge Checks, and Self-Quizzes contained in this Learning Guide in a format that makes it easy for you to practice and check your answers.

Flash Cards Study Set

Play an interactive vocabulary game with a study set of digital flashcards to enhance your learning of the insurance and risk management terms used in this course.

Review Game

Use a fun, trivia-style review game to test your knowledge and prepare for the Final Exam.

Coinsurance Activity

Use this activity to gain practice applying the coinsurance formula to calculate a settlement.

Video Clips

View video clips about important concepts related to the learning objectives in this section.



Underestimating a Time Element Loss

In Addition...

Policies and Forms

For your reference, a copy of the policies and forms discussed in this section are provided on the following pages.

Appendix

The Appendix of this Learning Guide contains a Glossary of terms as well as tips for study techniques and sample test questions that will help you prepare for the Final Exam.

Section 3

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

COMMERCIAL PROPERTY
CP 00 30 10 12

BUSINESS INCOME (AND EXTRA EXPENSE) COVERAGE FORM

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

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

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

A. Coverage

1. Business Income

Business Income means the:

- a. Net Income (Net Profit or Loss before income taxes) that would have been earned or incurred; and
- b. Continuing normal operating expenses incurred, including payroll.

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

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

- (1) Business Income Including "Rental Value".
- (2) Business Income Other Than "Rental Value".
- (3) "Rental Value".

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

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

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

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

- (a) The portion of the building which you rent, lease or occupy;
- (b) The area within 100 feet of the building or within 100 feet of the premises described in the Declarations, whichever distance is greater (with respect to loss of or damage to personal property in the open or personal property in a vehicle); and
- (c) Any area within the building or at the described premises, if that area services, or is used to gain access to, the portion of the building which you rent, lease or occupy.

2. Extra Expense

- a. Extra Expense Coverage is provided at the premises described in the Declarations only if the Declarations show that Business Income Coverage applies at that premises.
- b. Extra Expense means necessary expenses you incur during the "period of restoration" that you would not have incurred if there had been no direct physical loss or damage to property caused by or resulting from a Covered Cause of Loss.

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

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

- (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.

COMMERCIAL PROPERTY
CP 00 30 10 12

BUSINESS INCOME (AND EXTRA EXPENSE) COVERAGE FORM

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

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

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

A. Coverage

1. Business Income

Business Income means the:

- a. Net Income (Net Profit or Loss before income taxes) that would have been earned or incurred; and
- b. Continuing normal operating expenses incurred, including payroll.

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

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

- (1) Business Income Including "Rental Value".
- (2) Business Income Other Than "Rental Value".
- (3) "Rental Value".

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

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

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

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

- (a) The portion of the building which you rent, lease or occupy;
- (b) The area within 100 feet of the building or within 100 feet of the premises described in the Declarations, whichever distance is greater (with respect to loss of or damage to personal property in the open or personal property in a vehicle); and
- (c) Any area within the building or at the described premises, if that area services, or is used to gain access to, the portion of the building which you rent, lease or occupy.

2. Extra Expense

- a. Extra Expense Coverage is provided at the premises described in the Declarations only if the Declarations show that Business Income Coverage applies at that premises.
- b. Extra Expense means necessary expenses you incur during the "period of restoration" that you would not have incurred if there had been no direct physical loss or damage to property caused by or resulting from a Covered Cause of Loss.

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

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

Leasehold Interest Coverage Form CP 00 60 06 95

COMMERCIAL PROPERTY
CP 00 60 06 95

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.

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:

- Monthly rental value of the premises you lease; and
- 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	$\div \quad 24$
"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	$\times 18.419$
"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	$\times 10$
"Net Leasehold Interest"	\$5,000

Appendix

Preparing for the Final Exam

Keep in mind, the most important measure of your knowledge will be witnessed in your service to your organization. Think of an exam as a tool. Use it to come to an understanding of what you know, how it affects your work, and what more you would like to know to have even greater success in the workplace.

The testing period is two hours long. You are required to earn a minimum of 140 out of 200 possible points. Questions appear in the order of presentation of the topics.

Remain aware of the time as you take the exam. Pace yourself and be aware that unanswered questions are considered incorrect.

Study Techniques

Here are some techniques you can use to help you prepare for the Final Exam. Apply these same techniques to each section in this Learning Guide.

1. Review the Section Goal.
2. Re-read the Introduction.
3. Review each Learning Objective.
4. Change each head and subhead into a question. Then answer the question. For example, header: Risk Financing Plans
Question: What are some examples of risk financing plans?
5. Review each diagram, graph, and table. Interpret what you see. Ask yourself how it relates to a specific learning objective.
6. Check your answers to each Check-In activity. Correct your original answers, if necessary.
7. Check your answers to each Knowledge Check. Consider ways to improve your original answers.
8. Re-read the summary at the end of each section.
9. Check your answers for each section Self-Quiz. Correct your original answers, if necessary.

10. Review any comments, highlights, or notes you made in each section.
11. Rewrite important ideas in your own words. Find ways to relate your work experiences to those ideas.
12. Make flash cards to help you review important vocabulary.

Sample Exam Questions

1. Tony recently purchased a new widget machine for his business. When it was installed, it was built into the floor. According to the Building And Personal Property Coverage Form, would this be considered part of the Building or Your Business Personal Property? Support your answer. (4 points)

Sample Answer:

Building. The Building And Personal Property Coverage Form defines the term Building to include permanently installed machinery or equipment.

2. Tony has another machine that packages the widgets. This machine is extremely heavy but is not bolted to the floor. Is there a way Tony can modify his policy to cover it as a Building item? Explain your answer. (4 points)

Sample Answer:

Yes. The equipment can be added as Building item using the Additional Building Property endorsement.

Glossary of Terms

Section 1

Actual Cash Value (ACV) – replacement cost less an allowance for insurance depreciation, wear and tear, or obsolescence

Advance premium – initial premium paid to begin coverage on a policy

Agreed Value – a limit agreed upon by the underwriter and Named Insured that is deemed adequate, therefore, suspending the Coinsurance clause

Bailee – person or organization that has possession of the property of others, usually for storage, repair, or servicing

Bailment – situation in which property of one has been entrusted to another. A bailment can be for the benefit of either party or both. The degree of care owed by the bailee to the bailor differs according to who has the benefit of the bailment.

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

Demand surge – increased costs of rebuilding following a disaster

Final premium – determined at the end of the policy year based on average reports of valued submitted by the insured

Inflation Guard – a feature that increases the amount of an insurance benefit by a fixed percentage automatically every year, to adjust for inflation

Insurable interest – the existence of potential financial loss, or having a legal or financial relationship in the value of the subject of insurance, on the part of the policy owner and/or beneficiary in the event of a payable Covered Cause of Loss

Named Insured – a person or entity specifically named and listed on an insurance policy
Declarations under the Named Insured section

Replacement Cost – cost to replace damaged property with like kind and quality without taking into account depreciation

Specific insurance – type of insurance where only one individual property is covered by the policy

Section 2

Agricultural smudging – also referred to as a smudge pot; an oil-burning device used to prevent frost on crops or provide heat

Collapse – the abrupt falling down or caving in or giving way of a building or structure. Loss of structural integrity, including separation of parts of the property or property in danger of falling down or caving in or any cracking, bulging, sagging, bending, leaning, settling, shrinkage or expansion as such condition relates to the aforementioned situations.

Flood – general and temporary condition of partial or complete inundation of two or more acres of normally dry land area or of two or more properties (at least one of which is the insured's property) from: overflow of inland or tidal waters, unusual and rapid accumulation or runoff of surface waters from any source, mudflow, or collapse or subsidence of land along the shore of a lake or similar body of water as a result of erosion or undermining caused by waves or currents of water exceeding anticipated cyclical levels that result in a flood

Named perils – only the perils named on this form are covered on a Commercial Property Policy. The perils are: fire, lightning, explosion, windstorm or hail, smoke, aircraft or vehicles, vandalism, riot or civil commotion, sprinkler leakage, sinkhole collapse and volcanic action.

National Flood Insurance Program (NFIP) – program created by the U.S. Congress to help mitigate future losses caused by flooding through community enforced building standards. Participation is voluntary and is based on a community's agreement to adopt and enforce, at a minimum, the Federal standards for building within a Special Flood Hazard Area.

Open perils – all perils are covered unless specifically excluded or limited by policy language

“perishable stock” – property maintained under controlled conditions for its preservation and susceptible to loss or damage if the controlled conditions change

Sinkhole collapse – damage caused by the sudden sinking or collapsing of land into an underground empty space typically caused by water on limestone or dolomite

“specified causes of loss” – 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

Section 3

Dependent property – premises belonging to another business or organization on which the insured is dependent

Extended Period Of Indemnity – optional coverage that increases the time period for which the Additional Coverage – Extended Business Income will apply. Total number of days must be indicated on the Declarations, which will replace the “60 days” shown in the policy paragraph A.5.c.

Income statement – a report of the organization’s financial performance for a stated time period

“operations” (BIEE definition) – business activities occurring at the described premises (or tenantability of described premises if “Rental Value” applies)

“period of restoration” (BIEE definition) – period of time that 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. The Period of restoration 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 for Extra Expense coverage. It ends on the earlier of the date when the property at the described premises should be repaired, rebuilt or replaced with reasonable speed and similar quality or the date when business is resumed at a new permanent location.

“pollutants” (BIEE definition) – any solid, liquid, gaseous or thermal irritant or contaminant, including smoke, vapor, soot, fumes, acids, alkalies, chemicals and waste.

“suspension” (BIEE definition) – slowdown or cessation of your business activities (or part or all of the described premises is rendered untenable if “rental Value” applies)

Tenantability – fit to be rented or in a condition suitable for a tenant

Time element – insurance coverage in which measurement of loss is tied to a period of time and protects an insured when business is interrupted as a result of direct physical loss to property from a covered cause of loss

Valued policy – declares the amount that will be paid in the case of a total loss of the property